Public Document Pack

Pensions Committee

Date:	**Tuesday, 21 March 2017**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
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AGENDA

1. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

   Members of the Committee are asked to declare any disclosable pecuniary and non pecuniary interests, in connection with any item(s) on the agenda and state the nature of the interest.

2. **MINUTES (Pages 1 - 8)**

   To approve the accuracy of the minutes of the meeting held on 23 January, 2017.

3. **AUDIT PLAN 2016-17 (Pages 9 - 22)**

4. **LGPS UPDATE (Pages 23 - 38)**

5. **POOLING UPDATE (Pages 39 - 42)**

6. **ACTUARIAL VALUATION (Pages 43 - 52)**

7. **FUNDING STRATEGY STATEMENT (Pages 53 - 102)**

8. **INVESTMENT STRATEGY STATEMENT (Pages 103 - 116)**

9. **LGPC CONFERENCE (Pages 117 - 120)**

10. **PLSA LA CONFERENCE (Pages 121 - 124)**

11. **GIFTS & HOSPITALITY DECLARATIONS (Pages 125 - 142)**

12. **COMPLIANCE MANUAL (Pages 143 - 146)**

13. **IMWP MINUTES 09/02/17 (Pages 147 - 150)**

14. **GRWP MINUTES 07/02/17 (Pages 151 - 154)**

15. **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

    The following items contain exempt information.

    RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

16. **IMWP MINUTES 09/02/17 EXEMPT MINUTES (Pages 155 - 160)**

17. **GRWP MINUTES 07/02/17 EXEMPT MINUTES (Pages 161 - 166)**

18. **COMPLIANCE MANUAL - APPENDIX (Pages 167 - 252)**

19. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

PENSIONS COMMITTEE

Monday, 23 January 2017

Present:	Councillor	P Doughty (Chair)	
	Councillors	AR McLachlan	B Kenny
		G Davies	G Watt
		AER Jones	C Povall
		T Jones	P Cleary
		E Boult (dep for Cllr T Anderson).	
		Mr P Cleary, Unison (Active Member)	
Apologies	Councillors	T Anderson	
		J Fulham, St Helens Council	
		P Lappin, Sefton Council	
		T Byron, Knowsley Council	

142 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked if they had any pecuniary or non-pecuniary interests in connection with any application on the agenda and, if so, to declare them and state the nature of the interest.

Mr P Cleary (Unison) declared a pecuniary interest by virtue of being a member of the Merseyside Pension Fund.

Councillor George Davies declared a pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Councillor Paul Doughty declared a pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Councillor Tony Jones declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

143 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 15 November, 2016 be approved as a correct record.

144 **LGPS UPDATE**

A report of the Managing Director for Delivery provided Members with an update on a recent legal view as to the administering authority's regulatory requirements in respect of the LGPS under the Financial Services and Markets Act 2000 ("FSMA").

The report also provided an overview of the Chancellor's Autumn Statement in relation to pensions; along with a number of industry wide pension issues affecting the administration and funding of the LGPS.

Members were informed that on 28 November, 2016 HM Treasury had commenced a consultation that had proposed options for the indexation of GMP elements for members of public service pension schemes who would reach SPA on and after 6 December 2018.

The consultation document could be accessed from the following link: -

https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

The consultation period would end on 20 February 2017 and Yvonne Caddock, Principal Pension Officer, informed the Committee that she would keep Members informed of the outcome.

Resolved – That;

1. **the report be noted.**
2. **the officers involved be thanked for their hard work.**

145 **POOLING UPDATE**

Members gave consideration to a report of the Managing Director for Delivery that provided an update on pooling arrangements relating to MPF and the Northern Pool.

At Pensions Committee on 15 November, Members had been advised that the Minister for Local Government wished to meet representatives of each pool separately over the next month or so to respond to their final proposals and to set out his expectations for the rest of the programme. A meeting between the Minister and the Northern Pool had taken place on 19 December at which the Chair and Director of Pensions were present. A formal response from DCLG, following the meeting, was awaited. It was reported that since November's report, MPF had completed its due diligence and had formally joined the GLIL infrastructure LLP. Members were informed that the Fund's officers continued to work with pooling partners, particularly in relation to collaboration on Alternative investments.

Peter Wallach, Director of Pensions informed the Committee that Pooling would result in fundamental changes to oversight and management of LGPS assets. It was therefore essential that appropriate governance arrangements were put in place to ensure that Pensions Committee could exercise its responsibilities in accordance with the Council's constitution.

A formal response from the Minister had been received on 11 January and it was proposed to hold a workshop on 23 March 2017 to discuss in detail the implications of Pooling. This would be held in Tameside, Greater Manchester and the Chair of the Committee indicated that this would be an opportunity for Members to be involved and all Members were welcome to attend.

Resolved – That;

1. **the report be noted.**
2. **officers be thanked for a positive report.**

146 **PENSION FUND BUDGET**

A report of the Managing Director for Delivery requested that Members approve the budget for the financial year 2017/18.

It was reported that the headline figures were that during the financial year 2017/18, it was estimated that MPF would pay £283m in pensions and receive £286m in contributions from employers and employees. The Fund had a value of £7.7bn at 30 September 2016. The proposed administration costs of £21.0m including £14.1m of investment management charges to external managers represented a cost of £160.29 per member of the scheme or £0.27% of assets under management. Taken separately the external investment management costs were approximately £107.80 per member or 0.18% of assets under management.

The budget for 2017/18 was higher at £21.0m to £19.2m in 2016/17 primarily due to higher external investment management fees.

The budget for 2017/18 was attached as appendix 1 to the report.

Resolved – That;

1. **Members the budget for 2017/18 be approved. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)**

2. **a further report on the outturn for 2016/17 with finalised estimates in particular for salary overheads and departmental & central support charges for 2017/18 be presented to Pensions Committee Members in June.**

147 **MIFID CONSULTATION**

Members considered a report of the Managing Director that provided members with background information on MIFID II, a European Union Directive that regulated firms who provide services to clients such as the LGPS with a range of financial instruments such as shares, bonds, and units in collective investment schemes which was currently the subject of a consultation exercise.

It was reported that a major and contentious element in the proposals for MIFID II was the reclassification of local authorities as “retail investors” which would fundamentally change the way in which local authority pension funds conduct investment business with their counterparties in relation to all asset classes.

Members were informed that the changes were currently set to take effect from 3 January 2018, with the new legislation being known as MiFID II - this included a revised MiFID and a new Market in Financial Instruments Regulation (MiFIR).

It was reported that the implementation would allow local authorities to opt up to professional status, and it was likely that the vast majority of local authorities, and certainly all pension funds, would want to do this. However, as outlined in the appendix, the tests proposed by the FCA to enable opt up were so difficult that they would prevent many, if not all, local authorities from opting up.

The Committee was informed that the FCA was consulting on the implementation of the directive, not on the directive itself. A letter of the Director of Pensions ‘Markets in Financial Instruments Directive (MIFID II) Implementation –Consultation Paper III Director of Pensions 21 December 2016’ was included as an appendix to the report. The Chair of the Committee indicated that the implications of MIFID had been discussed at LAPFF and a presentation would be made to the Government Minister.

Resolved – That the Committee notes it has been informed of the potential implications of MIFID II and the ongoing consultation process.

148 **PROCUREMENT OF PENSIONS ADMINISTRATION SYSTEM**

A report of the Managing Director of Delivery informed the Pensions Committee of the procurement of a pension administration system under delegated authority by the Director of Pensions.

The procurement for a Pension Administration and Pensioner Payroll system had last been awarded as a five year contract from 1 January 2010 to 31 December 2014. The contract had been awarded to Heywood.

In September 2012, the Fund had exercised the option to extend the contract for a further two years, from December 2014 to 31 December 2016.

It was reported that Northumberland County Council (NCC) had established a framework agreement as part of a major procurement exercise that had been completed according to EU and other procurement legislation. One company had responded to the tender following a successful evaluation and NCC had appointed Heywood as the single supplier.

Fund officers had worked with legal and corporate procurement colleagues in ensuring the suitability of the NCC framework agreement.

An options appraisal had been carried out by Fund officers and Corporate Procurement to ensure value for money and other considerations in identifying the NCC framework agreement as the most appropriate route to market.

Members were informed that commercial arrangements had been confirmed with Heywood for the period 1 January 2017 to 31 December 2021.

The call-off contract under the framework agreement had been mutually agreed and sealed/signed on 19 December 2016.

Resolved – That the procurement of the Heywood Altair System for a period of five years, via a call-off contract from the Northumberland County Council Framework Agreement, in accordance with EU and other procurement legislation be noted.

149 **MEMBER DEVELOPMENT PROGRAMME**

A report of the Managing Director of Delivery provided Members with an outline of the proposed programme for member development in 2017.

The outline training programme was attached as an appendix to the report. It comprised of a series of internal and external training events throughout the year. The Director of Pensions noted that the heading should read 2017 and not 2016 as should the recommendation to the report.

Resolved – That the proposed training and development plan for 2017 be noted and approved.

150 **TREASURY MANAGEMENT STRATEGY**

A report of the Managing Director for Delivery requested that Members approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2017/18.

Members were informed that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public

Services required the Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy had last been approved by the Pensions Committee on 25 January 2016.

It was reported that the Fund's cash flows for dealings with members had moved negative with outflows to pensioners more than income from contributions. In an environment where a significant proportion of investment income was directly re-invested, the levels of liquid resources held needed to be adequate and daily cashflows and regular reporting was essential.

The policy statement was attached as Appendix 1 to the report. There were no changes to the policy followed for 2016/17.

Resolved – That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2017/18 be approved.

151 **LGC INVESTMENT SEMINAR**

Members gave consideration to a report of the Managing Director for Delivery that requested nominations for members to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Chester from 2 to 3 March 2017. The conference would be themed "2017: Implementing the changes".

It was reported that 2017 would be a year of fundamental change for all the LGPS funds. During the year all funds would decide how much of their funds will be pooled and most, if not all, would have begun to pool. Alongside this funds would be deciding how the pools should be organised and governed.

At the same time, funds would also have looked at the results of their 2016 Valuation and these results, together with an updated view about the prospective returns on investments in light of economic forecasts and political change, were likely to dictate changes in strategic asset allocations.

The 2017 LGC Investment Seminar would bring together a line-up of expert speakers to provide the latest thinking and information on how these changes could best be implemented.

The draft agenda was attached at appendix 1 of the report.

Resolved That;

1. **attendance at the conference by Members be approved.**
2. **Members wishing to attend the conference notify the Director of Pensions to enable the necessary registration and administration to be undertaken.**

152 **IMWP MINUTES 24/11/2016**

A report of the Managing Director for delivery provided Members with the minutes of the Investment Monitoring Working Party held on 24 November 2016.

The appendix to the report contains exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the report be noted.

153 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

154 **IMWP MINUTES 24/11/2016 EXEMPT APPENDIX**

The appendix to the report on IMWP Minutes 24/11/2016 was exempt by virtue of paragraph 3.

155 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

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The Audit Plan
for Merseyside Pension Fund

Year ended 31 March 2017

28 February 2017

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28 February 2017

Dear Members

Audit Plan for Merseyside Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Merseyside Pension Fund, the Audit and Risk Management Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Grant Patterson

Engagement Lead

Contents

Section

Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has improved from the date of the last valuation. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

Infrastructure Pooling

Merseyside Pension Fund has now formally joined the GLIL Infrastructure Fund. Due diligence was undertaken prior to joining the fund and officers now need to continue to monitor resource and governance arrangements to ensure investments are suitable for Merseyside Pension Fund.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Northern Pool

Final proposals for the creation of the Northern Pool have been presented to and reviewed by DCLG. A formal response has now been received and governance and decision making arrangements will now be developed.

Key performance indicators (at 31 March 2016)

Measure	Value
Net assets under management	£6,849,756k
Total membership	131,081
Number of employers	170

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications , and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

The fund made significant progress in preparing accounts to an earlier timetable in 2016, in anticipation of earlier audit and reporting deadlines in future years. For 2016/17 the Fund is planning to prepare draft accounts by the end of May 2017. We have agreed a revised audit timetable to complete our field work during June and will report to Pensions Committee on 17 July 2017.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 30/6/17.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £78,000k (being 1% of net assets at 31 December 2016). In the previous year, we determined materiality to be £66,000k (being 1% of net assets at 31 December 2015). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £3,550k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Materiality	Explanation
Management expenses	We will consider the completeness of disclosures to within 15% of the reported amounts	Due to public and political interest in these disclosures.
Related party transactions	We will consider the completeness and accuracy of disclosures, taking account of materiality from the perspective of the fund and the related party	Due to public interest in these disclosures and the statutory requirement for them to be made.
Key Management Personnel	We will consider the completeness and accuracy of disclosures to within 15% of the reported amounts or £15,000 (whichever is lower)	Due to public interest in these disclosures and the statutory requirement for them to be made.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Merseyside Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: ▪ there is little incentive to manipulate revenue recognition. ▪ opportunities to manipulate revenue recognition are very limited ▪ the culture and ethical frameworks of local authorities, including Wirral Council as the administering authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Work planned:** ▪ Review of accounting estimates, judgments and decisions made by management. ▪ Testing of journal entries. ▪ Review of unusual significant transactions.
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work planned:** ▪ We will update our understanding of the arrangements and controls in this area and discuss with relevant personnel from the team during the interim audit. ▪ We will perform walkthrough tests of the controls identified . ▪ For a sample of investments, we will test valuations by reviewing the latest available audited underlying accounts and agreeing these to the fund manager reports at that date. We will reconcile those values to the values at 31st March with reference to known movements in the intervening period. ▪ We will also consider the basis of preparation of the audited financial statements, the reputation of the auditor of these statements and whether the auditor has issued a clean opinion in respect of these statements.

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy and Occurrence)	**Work planned:** ▪ Test a sample of investment income to ensure it is appropriate ▪ Complete a predictive analytical review for dividend income ▪ For direct property investments rationalise income against a list of properties for expected rental income.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct. (Valuation and Occurrence)	**Work planned:** ▪ We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances ▪ Test a sample of purchases and sales to ensure these are correctly stated.
Contributions	Recorded contributions not correct (Occurrence)	**Work planned:** ▪ Controls testing over the Administering Authority's contributions monitoring and reconciliation procedures ▪ Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. ▪ Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**Work planned:** ▪ Controls testing over completeness, accuracy and occurrence of benefit payments, including testing of control account reconciliations. ▪ Test a sample of new starter pensions in payment by reference to member files. ▪ We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. ▪ Ensure the annual pension increase has been updated in the Altair system correctly.
Member Data	Member data not correct. (Rights and Obligations)	**Work planned:** ▪ Controls testing over annual/monthly reconciliations and verifications with individual members. ▪ Sample testing of changes to member data made during the year to source documentation.

Other risks identified (continued)

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Fair Value Measurement Disclosures

The 2016-17 Code of Practice removes the scope exclusion on the disclosures for investments measured at fair value. These disclosure requirements are likely to require additional disclosures for direct property investments. We will review the instructions to the property valuer to determine how the fund is planning to obtain the information required, and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Other investment assets
- Transfers in
- Transfers out
- Management and Administrative expenses
- Cash deposits
- Current assets
- Non current assets
- Current liabilities
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

The audit cycle

The audit timeline

Key dates:

- Year end: 31/3/17
- Close out: 03 July 2017
- Pensions committee: 17 July 2017
- Sign off: Audit & Risk Management Committee

Audit phases:

- Planning Jan-Mar 2017
- Interim w/c 06 Mar 2017
- Final w/c 06 June 2017
- Completion July 2017
- Debrief Sept 2017

Planning – Key elements

- Planning meeting with management to inform audit planning and agree audit timetable
- Issue audit working paper requirements to management
- Discussions with those charged with governance and internal audit to inform audit planning
- Discuss draft Audit Plan with management
- Issue the Audit Plan to management and Audit Committee
- Meeting with Audit Committee to discuss the Audit Plan

Interim – Key elements

- Document design effectiveness of key accounting systems and processes
- Review of key judgements and estimates
- Early substantive audit testing

Final – Key elements

- Audit teams onsite to complete detailed audit testing
- Weekly update meetings with management

Completion – Key elements

- Issue draft Audit Findings to management
- Meeting with management to discuss Audit Findings
- Issue draft Audit Findings to Audit Committee
- Audit Findings presentation to Audit Committee
- Finalise approval and signing of financial statements and audit report

Audit Fees

Fees

	£
Pension fund audit	36,882
IAS 19 fee variation (Subject to PSAA approval)	2,180
Total audit fees (excluding VAT)	**39,062**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes
- Invitations to events hosted by Grant Thornton, as well as the wider finance community
- Sector updates
- Constructive feedback on your people and your processes
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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WIRRAL COUNCIL

PENSION COMMITTEE

21 MARCH 2017

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the Fund's response to the recent separate consultations on Pension Scams and the Indexation/Equalisation of Guaranteed Minimum Pensions (GMPs) in Public Service pension schemes.

1.2 Fund Officers sought comments and approval from the Chairs of both the Pension Committee and Pension Board on the policy perspective within each response, before submission to HM Treasury on the appointed deadline dates for each consultation. The responses are attached as Appendices to the report.

1.3 The report also provides an update on the draft LGPS (Amendment) Regulations and the Enterprise Act 2016 Commencement Order

2.0 BACKGROUND AND KEY ISSUES

<u>Consultation on indexation and equalisation of GMP in Public Service pension schemes</u>

2.1 The publication of the consultation and an outline of the fundamental aspects were detailed within the LGPS Update report presented at the last committee meeting on 23 January 2017 (minute 144 refers).

2.2 The Fund response focuses on the necessity for a simple administration approach and postulates that full indexation of the GMP, or the Fund 's prepared approach of converting the GMP into scheme benefits, is the simpler longer term solution as opposed to the case-by-case option.

2.3 The Fund accepts that the viable, simpler administration options are likely to involve the LGPS paying the value of the increase to the members. However, as the loss of GMP indexation appears to be an unintended consequence of State Pension reform, additional funding should be made available to public sector schemes to offset the extra liability.

2.4 The Fund believes that a necessary outcome of the consultation is a policy that maintains the level of promissory retirement income. This is required to retain employee confidence in pension saving and provisions which are understandable and can inform members' financial planning.

<u>Pension Scams: Consultation</u>

2.5 The Department for Work and Pensions (DWP) and HM Treasury published a joint consultation seeking views on a package of measures to tackle three different areas of pension scams, namely; a ban on cold calling, limiting the statutory right to transfer and making it harder to open fraudulent schemes.

The Fund is supportive of the suggested actions within the consultation.

2.6 As many pension scams are initiated through cold calls, the degree of success the ban achieves will be largely dependent on public awareness of the illegality of cold calling and the requirement to report targeted fraud to 'Project Bloom'; a multi–agency taskforce of government, regulators, financial service bodies and criminal justice agencies which work to disrupt and prevent pension liberation scams.

2.7 The focus of the Fund's response highlights the need for robust HMRC and statutory controls to provide ceding schemes with the required assurance that demonstrable appropriate due diligence checks will prevent the payment of unauthorised transfers; protecting members and pension funds from penal tax charges.

2.8 In addition, the Fund is mindful that primary legislation will be needed to introduce the controls and has raised the question as to the possibility of interim measures to prevent an upsurge of activity whilst the current law remains in force.

<u>Consultation: Draft Local Government Pension Scheme (Amendment) Regulations</u>

2.9 Members have previously been apprised of the above regulations and noted the Fund's technical response on the provisions at the committee meeting on 19 September 2016 (minute 111 refers).

2.10 DCLG is working on a formal response to the consultation which will be published in due course, but a number of points remain which require further clarification, relating to:

- Fair Deal - there are a number of gaps in the draft regulations and a further consultation may be needed on an amended set of provisions;

- Freedom and Choice for AVCs – the advantages and disadvantages of offering uncrystallised fund pension lump sum (UFPLS) from LGPS AVCs are being considered along with identified administrative complexities.

Enterprise Act 2016 – Commencement Order

2.11 The above statutory order SI2017/70 has been issued by HM Treasury with an effective date of 1 February 2017 and is available from the following link

http://www.legislation.gov.uk/uksi/2017/11/contents/made

2.12 These regulations enable the proposed £95k Exit Payment Cap to be introduced, although the commencement order does not bring the exit cap into effect but allows the Government to make further regulations implementing the cap.

2.13 A further consultation on draft regulations will be required but there is no hard deadline for the introduction of the cap, as the secondary legislation is still being finalised.

3.0 RELEVANT RISKS

3.1 The policy proposal to transfer the Government's obligation to fully index GMPs could alienate private companies who may consider bidding to provide public sector services; acting as a barrier to the greater plurality of public service provision by the private sector, stifling 'best value' delivery.

There is a risk that contractors may be less willing to bid for public service contracts if the government is seen to be arbitrary changing the legislation governing the schemes, in order to pass on costs which were not factored into the commercial agreements.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 The extension of the Fair Deal pension protection to community admission bodies presents a significant restriction to their flexibility to outsource contracts.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 If it is agreed that public service pension schemes should pay full indexation on GMPs for all members who reach State Pension Age from 6 December 2018, the burden of the additional liabilities for the LGPS is around £1 billion.

This equates to around 0.3% of the Scheme's total liabilities which corresponds to an increase in contributions of 0.1% of pay per annum if spread over a 20 year recovery period.

8.2 The impact will vary for individual employers, depending on their membership profile in regard to the numbers of staff with pre-1988 membership and the level of accrued GMPs.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

REPORT AUTHOR

Yvonne Caddock
Principal Pension Officer
Telephone (0151) 242 1333
Email yvonnecaddock@wirral.gov.uk

APPENDICES

Appendix 1. MPF consultation response on GMP indexation and equalisation
Appendix 2. MPF consultation response to pension scams

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

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Consultation on Indexation and Equalisation of
GMP in Public Service Pension Schemes,
Workforce, Pay and Pensions Team,
HM Treasury,
1 Horse Guards Road,
London
SW1A 2HQ

Direct Line: 0151 242 1390

Please ask for: Yvonne Caddock

Date: 20 February 2017

c/o **gmpconsultationresponse@hmtreasury.gsi.gov.uk**

Dear Sirs

Consultation on Indexation and Equalisation of GMP in Public Service Schemes

I refer to the above mentioned consultation document and I am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority for Merseyside Pension Fund (MPF).

The Fund is part of the Local Government Pension Scheme (LGPS) and the 4th largest of the 88 funds in England and Wales, with assets of £7bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 170 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 130,000 active, deferred and pensioner members.

1/ Objectives of the Consultation

The consultation takes a joint approach in addressing the issue of equalisation and indexation of GMPs culminating in a number of inter-linked factors which have cost implications for funds and employers as follows:

- Operational cost and complexity – the immediate and ongoing costs associated with the additional administration burden of the proposals.
- Immediate financial/funding cost – the impact on current funding levels of the proposals
- Future financial exposure – the additional exposure to inflation linked to the removal of the 3% cap on post 1988 GMPs

2/ Correlation of Public Service Pension's and State Pension Scheme

The correlation between the public sector and state pensions is a complex issue and there is no obvious solution to unwind the historic synergies and any proposal will ultimately result in a trade-off between the above factors.

The consultation description explains that *"the new State Pension (nSP) was designed to simplify pension provision, while ensuring that pensioners have security in retirement*".

To ensure members' continued security in retirement and retain the confidence of employees and pensioners within the public sector, it is essential a method is agreed that maintains the level of promissory provision through a combination of the occupational and state pension scheme.

However, the method also needs to address fairness between the loss of member payments, the increase in employer costs, simplicity of administration and ease of member understanding.

3/ Impact of Proposed Options on Funding & Administration Costs

In order to honour historic government commitments to fully index the GMPs of public sector employees, it appears that HM Treasury is passing on the payment obligations to public service schemes and the associated employers (including private sector companies) without any additional funding to cover the cost. It is also ambiguous as to whether all participating employers in the LGPS are obliged to fulfil the government's previous promises e.g. universities, housing associations and community admission bodies.

As such the proposals generate material funding implications, administrative complexity and increased operational costs to varying degrees.

a/ Proposal One – A Case by Case Approach

This proposal would limit payment top-ups to circumstances where there has been a monetary loss from the introduction of the nSP; and any consequential adverse impact due to the loss of indexation on pension entitlement as related to a member's gender.

Operational Impact [SEVERE]

The multiple assessments required to calculate any loss of indexation under the old/new state pension system, together with the gender comparison will involve a huge administration burden, to establish entitlement to top ups, which will continue for decades. The complexity inherent within this approach will require significant investment in administration systems. GMP data for all members would first have to be reconciled under HMRC's Scheme Reconciliation Service and then subsequently tested each year under the two stage process.

This proposal is also contrary to the principle of simplicity as it will be difficult for members to forecast pension entitlement and administrators would also need to retain a detailed knowledge of GMPs long after the abolition of contracting out.

Estimated Operational Cost

Actuarial advice indicates that costs could be in excess of £75 per member in respect of full member GMP reconciliation and rectification, plus additional costs in relation to the 'no-worse-off test'; this will result in the largest operational impact of the three proposals.

Funding Impact [MATERIAL]

There will be an additional funding cost incurred by employers, associated with uprating the benefits of those members who lose out under the new state pension scheme along with any gender equalisation. The cost of the additional liability cannot be specified without full details of the two stage process, but will be less than the other proposals.

Impact on Members

It is noteworthy that a significant proportion of LGPS retired members receive a relatively small pension, less than £100 per week, and they would be disproportionately affected if the GMP element of their pension is not subject to indexation.

As the GMP forms a significant part of their income, any failure to ensure this sum is indexed in pace with inflation will have a detrimental impact on their living standards. This would be particularly unfortunate as they have taken the opportunity to contribute to an occupational pension in order to secure their financial future in retirement.

b/ Proposal Two – Full Indexation for <u>all</u> Members

Under this proposal, all members who reach State Pension Age (SPA) after 5 April 2016 would receive the promised full indexation on GMPs upholding the commitments made by successive governments. Therefore, as the full pension would be increased in line with CPI inflation (including GMPs), the benefits for males and females would be effectively equalised for all members.

For members who reached SPA before 6 April 2016, the state will continue to pay the difference on GMP increases above 0% (pre 1988 GMP) and 3% (post 1988 GMP) up to CPI (if CPI is higher) effectively equalising pension provision within the public sector pension schemes.

Operational Impact [MATERIAL]

A potentially reduced GMP reconciliation exercise would need to be done for those members who reached SPA after 6 April 2016. GMP data for only those members who reached SPA prior to 6 April 2016 would have to be reconciled by way of HMRC's Scheme Reconciliation Service, materially reducing the amount of administration required.

Our understanding of the way that this proposal has been drafted is that all members would receive full GMP indexation (whether from the Fund alone or from the Fund and state combined) and therefore a 'no-worse-off test' is not required.

A major disadvantage of this approach is that it requires the continued administration of GMPs, requiring processes and systems that can cope with GMP for many decades; long after the original concept of GMP has ceased to have any real relevance.

Estimated Operational Cost

It is difficult to quantify at this stage but the costs will be significantly lower than under proposal one. Ultimately, as an extension to the interim solution for public service pensioners who attain GMP age between 6 April 2016 and 5 December 2018, it requires no additional IT or systems development.

Funding Impact [SEVERE]

There will be a funding cost associated with the impact of providing full CPI indexation on GMPs for all members who reach state pension age after 5 December 2018.

In addition, there will be a future risk of inflation increasing above the 3% cap that would mean additional funding strain compared to current financial commitments. Actuarial analysis has indicated that the combined valuation deficit at 31 March 2016 across all LGPS funds could increase by c.£1billion under this proposal.

c/ Proposal Three – GMP Conversion

This proposal would mean converting the GMP on a simplified basis into scheme benefits. MPF is mindful that conversion on a 1:1 basis shares many of the advantages of the full GMP indexation approach. In addition, this approach would remove the burden of GMP legislation from public service schemes.

It appears that this approach would likely be less onerous than full GMP indexation. Scheme GMP records would only need to be reconciled to the extent that the population and contacted out periods matched that of HMRC's records. Discrepancies between scheme and HMRC GMP values would not need to be addressed as schemes would take the HMRC GMP value and convert to main scheme pension at 1:1 ratio with no impact on pension entitlements.

Where an individual is in receipt of a public service pension, has a GMP entitlement, but has not yet reached SPA, the conversion of the member's GMP to main scheme pension should be carried out as part of the same exercise in respect of active and deferred members.

This proposal fully addresses issues of indexation and any inequality, and fully upholds the commitments on GMP indexation made by successive governments.

The approach has the further advantage of being a one off exercise. Once the conversion has been carried out, neither the schemes nor Department of Work & Pensions (DWP) will need to calculate or track GMP amounts going forward. This finality brings a stability and permanence to the solution.

The disadvantage of this approach is the full cost of GMP indexation passes to the schemes resulting in the same additional cost as the full-indexation method.

4/ Conclusion

The consultation highlights the obstacles in achieving the core objectives to equalise benefits and honour former commitments to fully index the GMP element of public sector pensions.

MPF is of the view that the full indexation or conversion of GMPs into main scheme benefits would deliver former government commitments and fully address the issue of gender inequality resulting from the abolition of the additional state pension scheme.

In terms of simplicity of administration and ease of member understanding, full indexation of GMPs by either route (Proposal Two or Three) is clearly preferable to an annual case by case approach.

Extending the current interim solution (Proposal Two) is clearly the least onerous in the short term, as it would not require any changes to systems or procedures - although it would require the ongoing maintenance of GMP records for the duration of the members and dependants time on pension. It is also recognised that GMP legislation for members who reach SPA post 5 December 2018 would also be required in order to extend the interim arrangements.

MPF's preferred approach is to convert the GMP into a scheme benefit (Proposal Three). Despite the initial administration and resource requirements to change the structure of the pension element, the conversion will result in fewer GMP records and shorten the period where Funds would be required to administer GMP related legislation.

However, this creates additional liabilities for the schemes and will be less of an immediate issue for the unfunded public service schemes, but would be reflected instantaneously in funding deficits for the LGPS.

Local Government is struggling to provide statutory services as local authority budgets are overstretched and the LGPS is grappling with resources as it addresses CARE changes, Auto Enrolment and an expanding employer base as a result of alternative delivery models and academy conversions.

The affordability and sustainability of the LGPS is paramount and costs inherent within the additional state pension provision <u>should not</u> be passed on to pension funds and its constituent employers. This is on the basis that the funding obligations and government commitment to pay full indexation on the GMP element of public sector pensions should have been identified when the nSP was being considered and therefore additional funding should be made available to LGPS funds to offset the extra liability.

The outcome of the consultation will have an effect on the approach that funds take to GMP reconciliation and given the deadlines to complete the project by December 2018 an early government response to the consultation is essential.

Yours faithfully

Y Caddock

Yvonne Caddock
Principal Pensions Officer

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Merseyside
PENSION FUND

Department for Work & Pensions
and HM Treasury

c/o **PensionScamsConsultation@HMTreasury.gsi.gov.uk**

Direct Line: 0151 242 1390

Please ask for: Yvonne Caddock

Date: 13 February 2017

Dear Sirs

Pension Scams: Consultation Response

I refer to the above mentioned consultation document and I am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority for Merseyside Pension Fund (MPF).

The Fund is part of the Local Government Pension Scheme (LGPS) and the 4th largest of the 89 funds in England and Wales, with assets of £7bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 170 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 130,000 active, deferred and pensioner members.

1/ What is a pension scam?

MPF supports further actions proposed to prevent pension scams and currently utilises measures such as the Pension Regulator's (TPR) scorpion leaflets, appropriate warnings within correspondence and dealing exclusively with members rather than external bodies. In our experience the majority of funding enquiries do not result in the transfer of pension rights, however, MPF would welcome clearer and more transparent guidance to ensure payments are being made to legitimate companies.

It has proved near impossible to obtain any guarantee that a suspect company is valid both here and overseas. For example, on the Recognised Overseas Pension Schemes notification list, HMRC states that it cannot guarantee the list as ROPs or that any transfers to them will be free of UK tax. It's the ceding scheme's responsibility to find out if you have to pay tax on any transfer of pension savings. Due diligence checks of PSTR numbers, ROPs listed, an active status on Companies House and FCA checks for financial advisors do not adequately provide confidence when a Fund is concerned with the validity of a company.

2/ Banning cold calling in relation to pensions

MPF has been sending out liberation questionnaire forms since 2013, to ascertain if members have been receiving cold calls – the feedback from the forms appears to show that this is not the case, although members may prefer to deny this was the incentive for the transfer. Many members of the public may be tempted to accept free advice given the complex nature of pensions

In respect of consumers benefitting from cold calling about pensions, it is possible that there are a number of deferred members who have overlooked pensions accrued historically and have lost contact with their provider following house moves – this could highlight a need to review their pension arrangements.

In addition, the advice being offered may be in-line with the members own appetite for risk taking and current situation. A member who has no dependants may prefer to take the whole of the fund value without making such provisions which are automatically factored into many public sector pensions.

We agree that existing client relationships and express requests should be excluded from the proposed ban, allowing providers and advisers to continue to offer much needed support. However, companies may comply with Privacy and Electronic Communications Regulations (PECR) which would establish a "relationship" and permit them to call consumers in connection with pensions – effectively allowing a loophole in banned pension cold calls.

Using preventive measures such as banning cold calls would be more effective and cost efficient than pursuing fraudulent companies after the loss of pension. It is a serious concern, however, that the proposals are less definitive on measures for dealing with other types of electronic communication, including e-mails and text messages. Attempted fraud through these methods will certainly increase under any tightening of the restrictions on cold calling. E-mails and text messages from scammers may appear perfectly genuine and therefore controls need to be strengthened to prevent the fraudsters employing other means of ensnaring their victims and a more comprehensive solution must be found to block as many opportunities as possible.

Legitimate firms should remain largely unaffected as a result of banning cold calling if they are using normal marketing methods to advertise their services.

3/ Limiting the statutory right to transfer

By adopting a non-statutory transfers approach, Funds would be under less pressure to pay transfers where they were dissatisfied with the receiving scheme; although if the member was determined to transfer their pension rights this would be difficult to enforce. Additionally, sufficient measures to justify refusal would be necessary and relevant due diligence checks would be required regardless.

Alternatively adopting additional statutory measures to limit the right and ultimately protect individual savings would be welcomed. In circumstances where a member has transferred pension rights to an unauthorised pension arrangement resulting in scheme sanction charges, the member has subsequently questioned the robustness of the due diligence checks made by the ceding scheme. The proposals to provide statutory provisions to limit unauthorised transfers and to introduce additional checks to ensure the receiving scheme is authorised with the FCA, together with the requirement to demonstrate a genuine employment and earnings link would be helpful.

In addition, a 14 day 'cooling off' period followed by a signed disclaimer by the individual declaring the intention to proceed with a transfer (despite risks) would be useful, in addition to all the other due diligence checks in place to avoid comeback from consumers.

4/ Making it harder to open fraudulent schemes

Furthermore, as it is permissible for cold–calling companies to wind up and establish another company for the purpose of targeting unethical/unauthorised transfers, a stronger enforcement framework is clearly necessary. This should incorporate provisions to ensure that directors are personally liable if the company breaches the law, including the introduction of straightforward and effective measures permitting personal assets to be targeted for enforcement purposes.

MPF supports the enforcement of measures to not allow dormant companies to register for occupational pension schemes.

5/ Conclusion

As industry evidence indicates that pension scams have multiplied in number since the introduction of pension freedoms, a robust approach is vital to counteract the threat pension scams pose to the credibility and integrity of the pension system as a whole.

MPF is mindful that primary legislation will be needed for much of these measures and will therefore take some time to come into law, thus presenting a window of opportunity for scammers before any change to the law is brought into effect. It would be sagacious for the government to introduce interim measures to prevent an upsurge of activity whilst the current law remains extant.

Yours sincerely

Y Caddock

Yvonne Caddock

Principal Pensions Officer

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**POOLING UPDATE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with an update on pooling arrangements relating to MPF and the Northern Pool.

2.0 BACKGROUND AND KEY ISSUES

2.1 At Pensions Committee on 23 January, Members were advised that, following the meeting of Pool representatives with the Minister for Local Government on 19 December, the Minister's formal response had just been received.

2.2 The Pool considered the Minister's letter at a shadow joint committee of the Northern Pool and a response to the letter has been prepared. Copies of this correspondence are attached at appendix 1.

2.3 A workshop on the implications of Financial Conduct Authority authorisation is to be held on 28 March 2017. Advisors to each Fund, the Chairs and one other member of each pensions committee are also invited.

3.0 RELEVANT RISKS

3.1 Pooling will result in fundamental changes to oversight and management of LGPS assets. It is essential that appropriate governance arrangements are put in place to ensure that Pensions Committee can exercise its responsibilities in accordance with the Council's constitution.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Pooling consultation has been discussed with the Merseyside Directors of Finance and stakeholders have been kept informed of the pooling consultation and its implications.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report. The anticipated financial costs of establishing pooling arrangements and the projected savings over the long-term are set out in the Fund's pooling submission of 15 July 2016.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Pooling will result in fundamental changes to oversight and management of LGPS assets.

REPORT AUTHOR: **PETER WALLACH**
Director of Pensions
telephone (0151) 2421309
email peterwallach@wirral.gov.uk

APPENDICES

Letters from and to the Local Government Minister

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
An update report is brought to each Pensions Committee	

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**ACTUARIAL VALUATION 2016**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the triennial actuarial valuation results for the Fund as at 31 March 2016. The position presented follows in-depth discussions between the Fund Actuary (Mercer), officers and constituent employers in relation to the core financial and demographic assumptions.

1.2 The statutory purpose of the valuation is to set a funding plan that strikes a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2017 to 31 March 2020.

1.3 In order to undertake the valuation, the Actuary must have regard to the draft funding assumptions and policies adopted by the Fund. These include the deficit repair plan and investment strategy.

1.4 All contributory policies and statutory statements to support the valuation process are covered under separate reports at this Committee meeting.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework for the valuation process. The regulations require an actuarial assessment of the Fund's assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years.

Valuation Results

2.2 The previous valuation of the Fund as at 31 March 2013 disclosed a past service deficit of £1,869 million and funding level of 76%.

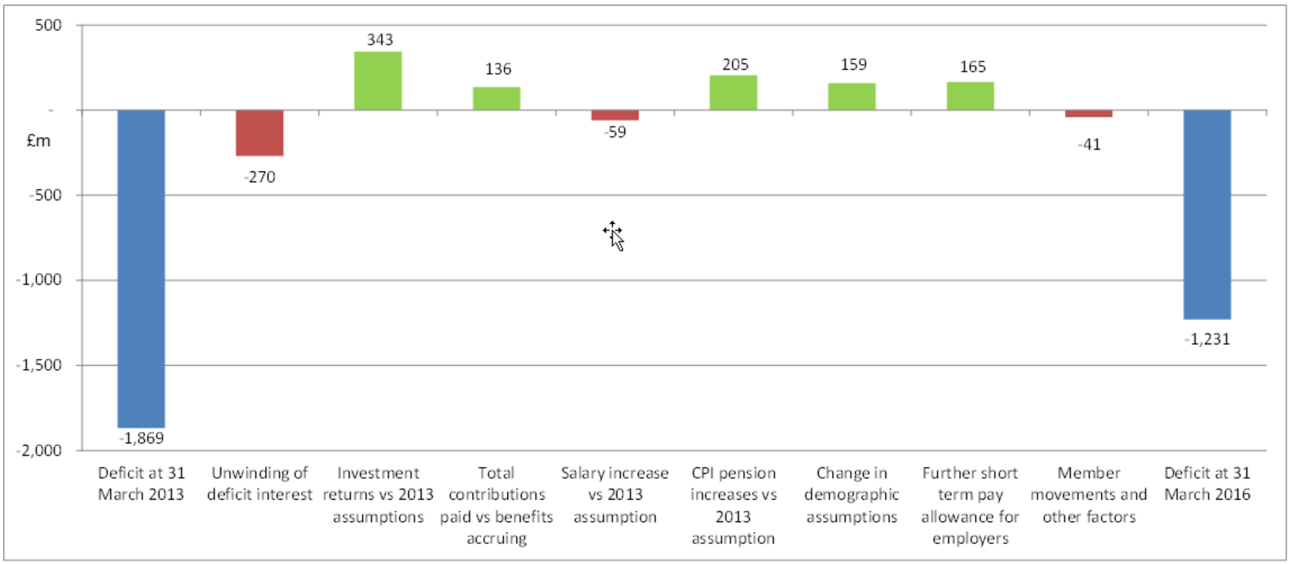
The current valuation at 31 March 2016 disclosed a past service deficit of £1,231m; the reduction to the deficit coupled with positive investment returns led to an increased funding level of 84.8%.

2.3 The asset, past service liabilities and Funding level for the whole Fund at 31 March 2016 is summarised as follows:

	£ million	£ million
Market value of assets		6,850
Value of benefits in respect of: - Current active members - Preserved (deferred) pensioners - Pensioners, widow(ers) and dependants	 2,935 1,385 3,761	
Total accrued liabilities		8,081
Past service deficit		1,231
Funding level		84.8%

A reconciliation of the deficit position during the inter-valuation period is set out below and provides a commentary on the principal factors that influenced the reduction in the deficit:

Figure 2.3.1 - Analysis of Change in Deficit Position



- **Investment returns:** Over the three years in question, the Fund returned 21%, well in excess of the 14.4% assumed at the 2013 valuation. This additional 6.6% equated to a gain/profit of £343m.

- **Pension Increases:** At 2013 we assumed CPI would be 2.6% per annum long term, although over the period it was only 3.9%. This results in lower than expected increases in pensions and equates to a gain of £205m.

- **Short term pay:** Assuming pay will increase at 1% per annum for the next four years (in line with government plans, rather than the long term assumption of 1.5% p.a above CPI), has reduced the liabilities at the 2016 actuarial valuation by £165m.

<u>Valuation Approach and Assumptions</u>

2.4 Members have previously been informed at the committee meeting on 15 November (minute 131 refers) of the change to the derivation of the discount rate for the 2016 triennial valuation.

The revised approach considers the long term investment strategy along with the expected return on the Fund’s assets above CPI with a margin for prudence (“CPI plus” approach). This is a different approach from the previous valuation where the discount rate was set with reference to fixed gilt yields plus a margin to allow for the anticipated outperformance from other asset categories.

2.5 As a starting position to undertake the calculations the market value of the Fund's assets were assessed at the valuation date with the liabilities calculated by discounting the benefits at market–related rates of interest.

There are three Fund specific financial elements of the market value basis, namely the:

- expected rate of CPI inflation, including any adjustments due to current market conditions;

- extent to which we expect the return on the Fund's investments to exceed these assumed levels of CPI inflation (the "real discount rate/rate of return");

- expected rate of Pensionable Pay increases in excess of inflation ("real Pensionable Pay growth").

2.6 The valuation outlook assumes:

- a 2% per annum (pre and post retirement) real discount rate for past service. This is consistent with the corresponding assumption at the 2013 valuation and reflects the Fund's long term expectation of the performance of different asset classes, with an appropriate degree of prudence;

- for future service the assumption is a real discount rate of 2.75% per annum above CPI. The comparable assumption at the 2013 valuation was 3.0% per annum above CPI.
- pay growth of 1% per annum for the first four years, reverting to a long-term real pensionable pay growth of 1.5% per annum above CPI thereafter. The long-term pay growth assumption is consistent with that used in the 2013 valuation.

- CPI inflation of 1.0% below market-implied RPI inflation in line with the 2013 valuation.

2.7 The main financial assumptions adopted are as follows:

	Past Service % pa	Future Service % pa
Investment return (pre & post retirement)	4.2	4.95
Salary inflation	3.7	3.7
Pension increases	2.2	2.2

2.8 There have been changes made to the non–financial assumptions adopted in the previous valuation. Mercer's has undertaken an analysis of its local authority client base, with particular focus on Merseyside Pension Fund's experience relating to mortality, ill health retirements and proportion of married members.

The findings were incorporated into the actuarial valuation calculations with the impact on the whole fund deficit and future service rate as follows:

Figure 2.8. - Demographic Assumptions Update

Analysis	Effect on Deficit (Whole Fund)	Effect on Future Service Rate (Whole Fund)	Comment in relation to Fund
Life Expectancy			Analysis indicates reductions from last time
Ill-Health Retirement			Marginal decrease for future service rate but no material impact for deficit
Withdrawal			Marginal decrease in deficit, no real impact on future service rate
50/50			Minimal impact on deficit but increase to FSR
Commutation			No change from 2013 assumption
Proportion with Partners / Dependants			Marginal impact

2.9 The Fund is proposing to implement an internal insurance arrangement for certain employers to pool the risk of ill health retirement costs where these could have a significant impact on the organisation. This provides more certainty of costs to these employers with the "premium" included within the rates for the inter-valuation period communicated to employers.

2.10 As in the previous valuation, no advance allowance for early retirement (other than ill health) has been included in the calculations. Such retirements will be funded by additional payments (on top of the recommended employer's contribution rate) as and when they occur.

Resultant Contributions

2.11 Employer contributions are calculated in two steps:

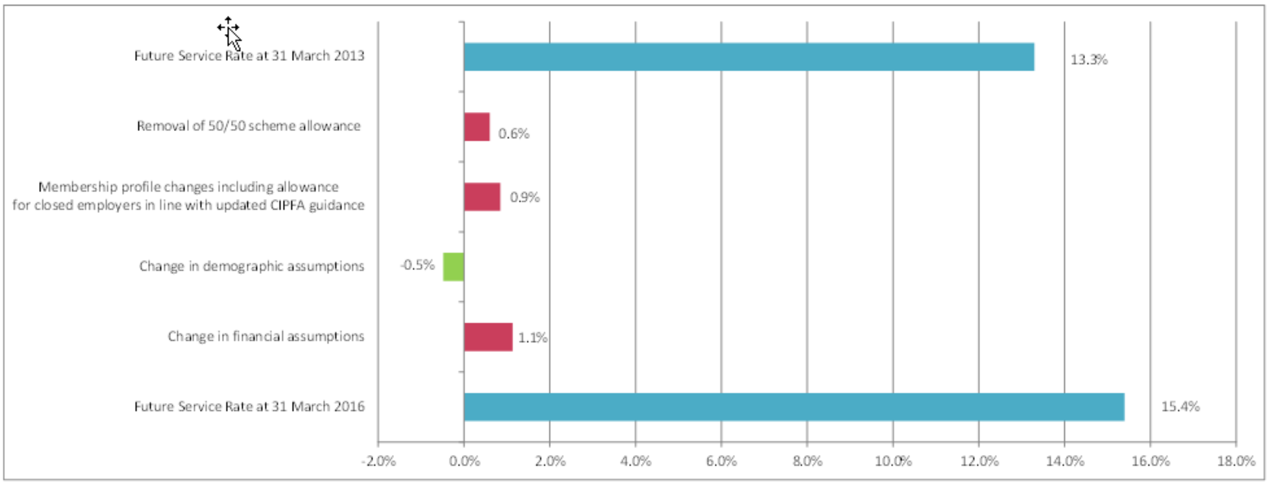
a) Future service contributions (% of pay) - to cover the costs of future benefit accrual by active members and;

b) Deficit contributions (£ amounts) - amounts to recover the 1,231m deficit at 31 March 2016.

2.12 **(a) Future Service Contributions**

The whole Fund future service contribution rate has increased at this valuation from 13.3% to 15.4% of pensionable pay. The material factors which result in the rising costs of future accrual are set out below along with commentary:

Figure 2.12.1 - Analysis of Change in Future Service Rate



- the removal of the 50/50 scheme allowance included within the 2013 future service rate, which lead to a reduction of around 0.6% of pay on average; as take-up by the membership was far below the assumed rate of 10%
- an increase in the average age of the membership from 49.1 to 49.8 year;
- the reduction of the discount rate to reflect a depressed outlook for long-term investment returns.

2.13 **(b) Deficit Contributions**

The deficit needs to be recovered by cash sums, with the annual payments predicated on the size of the deficit and the recovery period.

The deficit recovery period for the whole Fund position is 19 years and the additional cash sum needed to amortise the deficit in 2017/18 is £84m increasing by 3.7% p.a over the inter-valuation period

2.14 The contribution rates for individual employers reflect their own circumstances with regard to their employer status and strength of covenant as these aspects determine the pace of funding and deficit contributions

2.15 Where an employer is managing a deficit, they will be required to maintain current total contribution levels. In circumstances of low cash contributions the recovery period will be reduced to maintain the 2013 funding plan.

2.16 As the valuation is being undertaken against a backdrop of public sector austerity measures, it is intended that employers who face significant increases in contributions may phase payments over a maximum period of three years

2.17 The final valuation position will be declared following approval of both the Funding Strategy Statement and Investment Strategy Statement. Individual employer contributions will be certified with the new rates taking effect from 1 April 2017.

3.0 RELEVANT RISKS

3.1 It is imperative that the Administering Authority takes a prudent view when negotiating the financial and demographic assumptions for the 2016 Triennial Valuation, in order to secure the long term solvency of the Scheme.

However, to achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments will lead to a number of employers exiting the Fund leaving unrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 The extension of the Fair Deal pension protection to community admission bodies presents a significant restriction to their flexibility to outsource contracts.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 In discussions with the major councils it has become apparent there is a need to consider budgetary constraints faced by employers as a result of reduced public sector funding; and the direct impact of increases to employer contributions on front line services.

8.2 Consequently Fund officers have explored various funding models with employers to stabilise contributions which balance the administering authority's statutory responsibilities with regard to solvency and long term cost efficiency against employer affordability.

8.3 The funding position of the Fund will be kept under regular review during the period to the next formal triennial valuation as at 31 March 2019.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That Members approve the valuation basis and authorise the Fund Actuary to certify the final valuation report containing employers' contributions payable for the period 1 April 2017 – 31 March 2020.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

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BRIEFING NOTES HISTORY

Briefing Note	Date
FUNDING STRATEGY STATEMENT / FINAL VALUATION RESULTS	1 JULY 2014
2013 TRIENNIAL ACTUARIAL VALUATION	19 NOVEMBER 2013

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**FUNDING STRATEGY STATEMENT**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR FOR DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report presents Members with the final version of the Funding Strategy Statement (FSS) following committee's previous consideration of the draft assumptions and policy document at its meeting of 15 November 2016 (minute 131 refers)

1.2 As members are aware, the refinement and finalisation of the FSS was delegated to officers subsequent to the completion of an open consultation process with constituent employers. The aim of the consultation was to encourage employer engagement to the process, with a view to implementing a funding plan which balances the Fund's solvency and long term cost efficiency against affordable employer contributions

1 3 An updated draft FSS is attached as Appendix 1, which following due consideration of the comments received, incorporates measures to permit alternative phasing patterns for specific financial periods; to align with employer budget constraints and provide an easement from the upward pressure on cash contributions.

1.4 The 2013 FSS has been updated to incorporate the full suite of discretionary policies that impact on funding and risk management. This action has improved the transparency of funding by presenting the individual synergistic policies in one document.

1.5 Subject to member approval of the FSS, the Fund Actuary (Mercer) will produce the Rates and Adjustment Certificate confirming the individual employer contributions for the financial period 1 April 2017 to 31 March 2020.

2.0 BACKGROUND AND KEY ISSUES

Principal Objective of the Funding Strategy Statement

2.1 The principal objective of the FSS is to secure the long term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities, as assessed on an ongoing basis, including an allowance for projected final pay.

2.2 The FSS defines the parameters and actuarial assumptions to determine the valuation of the funds liabilities and the appropriate plan for making up any shortfall if assets are less than liabilities. It also has a direct impact on the setting of individual employer contributions required to cover the cost of the benefits that active members will build up in the future.

Actuarial Assumptions

2.3 The most significant actuarial assumptions are around:

a) **Financials** - expected investment returns, discount rates for liabilities, projected salary growth, pension increases

b) **Demographics** - mortality, ill health retirements, commutation rates

c) **Funding strategy** - length of recovery period, phasing of contributions, and segmentation and strength of employer covenant.

2.4 A synopsis of the assumptions used to complete the 2016 Triennial Valuation are presented within the separate Actuarial Valuation report on today's agenda and are also documented within Appendix A of the FSS.

Governance & Employer Engagement

2.5 The Fund has promoted employer engagement with the decision making process by arranging a number of employer forums and asked specifically for comments on:

- the appropriateness of the assumptions and in particular those that relate to pay and expectations of short term pay increases;
- the requirement for employers to at least maintain the same level of deficit recovery contributions as per the 2013 valuation where an employer is carrying a deficit;
- whether the level of detail was sufficient and the need for further explanations or meetings to understand the financial implications;
- whether they would be interested in ill health captive insurance.

2.6 In general, the respondents were supportive of the approach being applied and the transparency of the process, with all comments highlighting concerns about affordability giving the economic environment; with particular focus on their own organisation's financial constraints and budget forecasts for short and long term salary progression.

2.7 In recognition of employer budget pressures and the direct impact of increases to employer contributions on front line services, affordability will be taken into consideration when setting individual employer plans, with a number of flexible funding models incorporated within the FSS.

Ill Health Captive Insurance

2.8 A number of smaller employers also responded to support the introduction of an internal captive insurance arrangement to insure against employee ill health strain costs. This will be introduced from 1 April 2017 for Academies, Community related Admitted Bodies and Resolution Bodies.

2.9 The rationale for the change in policy is that whilst ill health retirements are reasonably rare, when they occur they can generate a significant cost to the employer. This potential funding cost is becoming a significant concern for a number of the Fund's smaller employers and a risk to the Fund.

2.10 A captive type arrangement within the Fund would smooth out the effect on ill health retirements for those employers covered by the arrangement and give greater certainty of cost. Compared to third party insurance, this approach would essentially remove any element of profit being passed outside the Fund as all premiums and costs would effectively be kept within the Scheme.

2.11 The captive arrangement operates as follows:

- in lieu of an ill health allowance incorporated within the contribution rate, premiums will be paid by the employer into the captive arrangement, which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2017-2020 is 1% p.a.

- the captive fund is then used to effectively meet strain costs emerging from ill-health retirements e.g. no impact on funding position for employers within the captive arrangement.

- the premium is set with the expectation that they will be sufficient to cover the costs in the three years following the valuation date. If any excess premiums over costs are built up in the captive arrangement, these will be used to offset future adverse experience and/or lower premiums at the discretion of the administering authority based on the advice of the actuary.

- premiums payable are subject to review at each triennial valuation.

<u>Risk Management – Investment Buckets</u>

2.12 The FSS has been revised to include two alternative "investment" buckets which exhibit lower investment risk and lower expected investment return characteristics than the whole fund strategy

2.13 The investment strategies are currently being finalised and will be implemented from 1 April 2017 in the form of three "investment buckets", each offering a different exposure to investment risk and expected return.

- **A higher risk bucket** - this is in line with the Fund's existing investment strategy which is broadly an 80% allocation to growth assets and a 20% allocation to defensive assets.

- **A medium risk bucket** – this has been designed to give an option to reduce exposure to riskier growth assets in order to help keep pension contributions stable. The medium risk bucket's initial investment strategy will be a 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the higher risk bucket but in the different proportions noted.

Under this bucket an employer will be giving up some potential higher investment return in order to protect some of the downside risk of deficit contributions needing to increase in the future. It therefore may be appropriate for employers who currently have a high funding level or are in surplus.

- **A lower risk bucket** - this bucket has been designed to hold lower risk, income generating assets such as bonds, property and infrastructure. The lower risk bucket will target a minimum investment return above CPI inflation. The intention is that those "orphaned" liabilities in respect of employers who have terminated the Fund will be backed by this bucket.

  This "bucket" may also be suitable for those employers that are planning to exit the Fund in the short term or for employers that want to "lock in" their funding position and remove a significant level of volatility in the funding position; in exchange for higher and more stable contribution requirements.

2.14 As part of the implementation of the investment buckets the Fund has been analysing the different employers in the Fund (in terms of the type of employer, the current funding position, strength of covenant and security in place) with a view to targeting which employers may be more suitable for each investment bucket.

The Fund does have the right to move an employer between the medium or lower risk strategy buckets if there are any concerns over employer covenant, which means there is an unacceptable level of risk to tax payers. However, the Fund will discuss this with the relevant employers before making this decision.

2.15 The regulatory framework underpinning the triennial actuarial valuation requires the FSS to be approved by the Committee prior to the Fund Actuary finalising the actuary report.

RELEVANT RISKS

3.0 It is imperative that the Administering Authority takes a prudent view when negotiating the financial and demographic assumptions for the FSS in order to secure the long term solvency of the Scheme to avoid the risk of an increase to the deficit.

The maximum recovery period for all employers has been reduced by three years. Advice provided states that it would be imprudent to maintain the recovery period at the 2013 rate. This is on the basis that not reducing the maximum recovery period would be detrimental to an employer's long term funding as it would further delay repayment of the principal debt and the opportunity of gaining of gaining investment returns on contributions.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There none associated with the subject matter

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The revised financial and demographic assumptions within the FSS will have a direct impact on funding levels and the employer contributions certified for the financial period 1 April 2017 to 31 March 2020.

8.2 Whilst approximately 58% of the Fund's employer base by number would be covered by the captive insurance arrangement this represents approximately 9% of the Fund's liabilities as at 31 March 2016. The impact of adopting this differential approach on the non-captive employers in terms of ill health allowance would be minimal as it only relates to a small part of the payroll.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 Members are recommended to approve the Funding Strategy Statement along with the implementation of the alternative invest strategies and internal ill health captive insurance arrangement.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

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APPENDICES

Appendix 1 Funding Strategy Statement

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date
FUNDING STRATEGY STATEMENT FUNDING STRATEGY STATEMENT	15 NOVEMBER 2016 19 NOVEMBER 2013

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FUNDING STRATEGY STATEMENT

MERSEYSIDE PENSION FUND

MARCH 2016

Wirral Metropolitan Borough Council

This Funding Strategy Statement has been prepared by Wirral Metropolitan Borough Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

I
EXECUTIVE SUMMARY

It is the fiduciary responsibility of the Administering Authority (Wirral Metropolitan Borough Council) to ensure that the Merseyside Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the Merseyside Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

> The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Merseyside Pension Fund.
>
> It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Merseyside Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the overall assumptions used, will be sufficiently prudent for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 85% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. A key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) and where appropriate consider affordability of contributions. Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 19 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Where there is an increase in contributions required at this valuation the employer may be able to step-up their contributions over a period of 3 years.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

The Fund is currently in the process of implementing a choice of "investment" buckets to offer to employers, which exhibit lower investment risk than the current whole fund strategy. If an employer is deemed to have a weaker covenant than others in the Fund, or it would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into a different investment strategy to protect the Fund as a whole.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment bucket the employers' assets are in. In addition the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances and the basis of participation reflects the nature and funding of the service provision. The approach taken is set out in in our separate admissions policy document. This can be found on the Fund's website: *https://mpfmembers.org.uk/pdf/AdmissionsPolicy2015.pdf*

Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to a lower risk investment strategy and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

4. Insurance arrangements

The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The captive arrangement has been considered when setting the employer contribution rates for the eligible employers. More details are provided in **Appendix E**.

CONTENTS

APPENDICES

1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Merseyside Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Merseyside Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Merseyside Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- 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
- Undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, additional pension contracts, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and

- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

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 potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- LEA schools and certain other employers within the Fund have been grouped with the respective Council.

- Academies are treated as separate employers but at inception any past service deficit is allocated on an equitable basis consistent with the relevant LEA schools.

- Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.

- Unless agreed otherwise by the relevant Scheme Employer, any admission bodies participating on a contractual basis will be treated in the same way as the original Scheme Employer. In addition, any stabilisation methods requested by the contractor will need to be agreed with the original Scheme Employer before being implemented.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 19 years being adopted across all Fund employers.

- For consistency, the recovery period for employers that have a surplus position at the valuation date will initially also be determined in line with the Deficit Recovery Plan set out in Appendix B. However, an alternative recovery period may be agreed at the discretion of the Administering Authority.

- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts or % of pay amendments over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

Where an employer is in a surplus position, the Secondary rate deduction from the Primary rate will be subject to a minimum threshold of £1,000, below which no deduction will be made.

- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in Primary rates will be implemented in steps of at least 0.5% of pensionable pay per annum, although subject to the agreement of the Administering Authority alternative phasing arrangements may be permitted consistent with the assessment of an individual employer's covenant strength and short term financial planning.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund 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. The termination policy is summarised set out in Appendix C

- For admission bodies participating from 1 April 2017 who do not have a guarantor of sufficient financial standing based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination and bond requirements will be on a lower risk investment strategy. The employer's assets will then be deemed to be invested in these lower risk assets and be credited with the returns derived from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

EMPLOYERS WITH NO GUARANTOR OR BOND IN PLACE

For those employers (who are not Scheduled bodies) and who have no guarantor or bond arrangements in place, a higher funding target will be adopted. The contribution rate for these employers will be determined to target a funding position of 120% for the liabilities of the current active membership. The funding target for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in exceptional circumstances by agreement with the Fund, through instalments over a period not exceeding 5 years or if less, the remaining period of the body's membership of the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. To the extent that a strain does occur, this will serve to increase the deficit at the next actuarial valuation (with the exception of those employers that take part in the captive arrangement who will be immunised against the strain in return for the premiums paid). However, where an employer exits the Fund in the inter-valuation period the outstanding ill health retirement strain costs will be included when the Actuary determines the termination debt.

FUNDING FOR DEATHS IN SERVICE AND RETIREMENT

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. As for ill health cases, any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer exits the scheme and any necessary adjustment will be taken into account when the Actuary determines the termination debt.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 85% covered by the current assets, with the funding deficit of 15% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

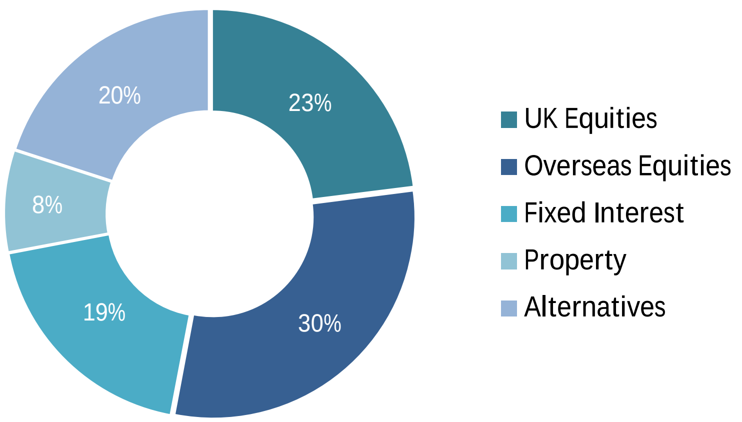
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 59%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current investment strategy is:



Based on the investment strategy above and the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 3.3% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority is currently considering implementing a risk management framework, using liability driven investment techniques. The principal aim of this risk management strategy is to effectively look to provide more certainty of real investment returns vs CPI inflation. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. This could have implications on future actuarial valuations and the assumptions adopted but does not impact on the 2016 valuation approach. Full details of the framework will be included in further updates of the FSS and ISS.

INVESTMENT BUCKETS

The Fund is currently in the process of implementing a choice of "investment" buckets for employers. These will be called:

- Higher risk bucket
- Medium risk bucket
- Lower risk bucket

The current Fund investment strategy will apply to the "higher risk bucket". The "medium risk bucket" and "lower risk bucket" will give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket's initial investment strategy will be a 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the current Fund investment strategy but in the different proportions.

The lower risk bucket will be made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate. The final strategic allocation has not yet been finalised but once done it will be reflected in future updates of the Investment Strategy Statement.

The choice of bucket will be reflected in the relevant employer's asset share, funding basis and contribution requirements. However, the contribution requirements for employers within the medium risk bucket will not change at this valuation but will be reviewed from 1 April 2020 as part of the 2019 valuation.

If, based on the assessments carried out by the Administering Authority, the employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move the employer (typically following discussions with the employer) into the medium or lower risk investment strategy to protect the Fund as a whole.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment bucket) is kept under regular review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future improvements in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where a one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are administered properly, can help control exposure to this demographic risk. The Fund's ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix E).

Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

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. More detail on how the Fund is implementing the captive insurance for ill health costs is set out in **Appendix E.**

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments. The first draft was reviewed at the Committee's meeting on 15 November 2016 and finalised following the Committee meeting on 21 March 2017 after the Fund received feedback from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

· Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

PENSIONS COMMITTEE

Wirral Metropolitan Borough Council, as the Administering Authority for Merseyside Pension Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of fifteen voting representatives and Wirral Council, as the Administering Authority, nominates ten members, each of the other four local councils nominate a member and a representative of the remaining employers is elected by ballot. There are three non-voting members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the trade union and non-council representatives, Member changes to Committee are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 to 5 times a year and has set up an Investment Monitoring Working Party which meets at least 6 times a year to monitor investment performance and developments. A Governance and Risk Working Party has also been established which meets twice a year to discuss current and emerging risks and measures to mitigate and control risk The Committee has delegated powers to the Director of Pensions for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Managing Director for Delivery, the Director of Pensions and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

§ Structural change in employer’s membership e.g. large fall in employee numbers or large number of retirements.
§ A closure in accessibility of the scheme to new entrants.
§ An employer ceasing to exist.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

Membership

The Pension Board is comprised of four voting employer representatives and four voting scheme member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity.

Member representatives are scheme members of Merseyside Pension Fund and have the capacity to represent scheme members of the Fund

The Pension Board is chaired by an independent non-voting member and all representatives have significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the scheme regulations and other legislation relating to the governance and administration of the scheme; and
- any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

- the rules of the scheme and the law relating to pensions, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

The Council considers that the Pension Board is providing oversight of the administration and governance of the Pension Fund and does not have a decision making role in the management of the Fund but makes recommendations to assist in ensuring compliance with its statutory responsibilities.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed from the following link:

http://mpfund.uk/pensionboard

9
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency 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, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate, consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time-to-time, typically at the time of a formal valuation or bond review based on the investment strategy, market outlook and the Fund's overall risk metrics.

For those employers who are funding on a lower risk investment strategy, the discount rate used will be linked to low risk generating assets and this will be notified to the employers separately.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation 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, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or allowances of 1%, 1.5%, 2% or 2.5% per annum for each year from the valuation date up to 2020. The allowance made has been notified to each employer separately on their individual results schedule.

Pension increases/Indexation of CARE benefits

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 the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum for males and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment bucket the employers’ assets are in.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.20% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.70% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.70% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.

*short term salary increases also apply

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	2013 study	2016 study
Annuitant	Normal Health	106% S1PMA_CMI_2012[1.5%] / 100% S1PFA_CMI_2012[1.5%]	112% S2PMA_CMI_2015[1.75%] / 99% S2PFA_CMI_2015[1.5%]
	Dependant	173% S1PMA_CMI_2012[1.5%] / 120% S1DFA_CMI_2012[1.5%]	126% S2PMA_CMI_2015[1.75%] / 118% S2DFA_CMI_2015[1.5%]
	Ill Health	106% S1PMA_CMI_2012[1.5%] + 3 yrs / 100% S1PFA_CMI_2012[1.5%] + 3 yrs	112% S2PMA_CMI_2015[1.75%] + 3 yrs / 99% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	104% S1PMA_CMI_2012[1.5%] / 94% S1PFA_CMI_2012[1.5%]	107% S2PMA_CMI_2015[1.75%] / 92% S2PFA_CMI_2015[1.5%]
	Ill Health	104% S1PMA_CMI_2012[1.5%] + 4 yrs / 94% S1PFA_CMI_2012[1.5%] + 4 yrs	107% S2PMA_CMI_2015[1.75%] + 4 yrs / 92% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	130% S1PMA_CMI_2012[1.5%] / 110% S1PFA_CMI_2012[1.5%]	137% S2PMA_CMI_2015[1.75%] / 105% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	111% S1PMA_CMI_2012[1.5%] / 106% S1DFA_CMI_2012[1.5%]	115% S2PMA_CMI_2015[1.75%] / 107% S2DFA_CMI_2015[1.5%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	21.8	24.6
Actives aged 45 now	24.8	27.5
Deferreds aged 45 now	22.7	26.4

Other demographic assumptions are set out in the Actuary’s formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of recovery periods are summarised in the table below, however there are a small number of employers that have different recovery periods to those set out below and these employers have been notified separately:

Category	Average Deficit Recovery Period	Derivation
Fund Employers	19 years	Determined by reducing the period from the preceding valuation to ensure (as far as possible) deficit contributions do not reduce versus those expected from the existing recovery plan.
Open Admitted Bodies	9 years	Determined by reducing the period from the preceding valuation to ensure deficit contributions (as far as possible) do not reduce versus those expected from the existing recovery plan.
Closed Employers	The deficit recovery period for closed admission bodies is a minimum of 9 years or the lower of the future working lifetime of the membership	Determined by reducing the period from the preceding valuation to ensure deficit contributions (as far as possible) do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or 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 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.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, normally restricted to a maximum period of 19 years, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - TERMINATION POLICY

EXITING THE FUND

TERMINATION ASSESSMENT OF AN EMPLOYER'S RESIDUAL PENSION OBLIGATIONS AND METHOD TO CALCULATE BOND/ FINANCIAL GUARANTEES

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

Where it may be appropriate to use a more cautious basis, the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets which make up the lower risk investment "bucket". This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium risk asset bucket. The Administering Authority retains the discretion to adopt a different approach for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2% per annum for males and females.

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation.

In summary, depending on the employer type, participation basis and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements for certain admitted bodies or designating bodies:-

1. Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer's liabilities.

2. Assessing the final liabilities using a discount rate which is linked to a low risk income generating investment strategy which make up the lower risk investment “bucket”. As part of this assessment the Actuary will use a deduction from the discount rate to reflect a reasonable estimate of the potential asset default and reinvestment risk associated with the asset strategy, the associated costs of termination and any other reasonable prudential margins that are appropriate based on the advice of the Actuary. This will be reviewed from time-to-time dependent on market conditions. In addition, the Actuary will apply the more prudent mortality assumption as described above.

3. Assessing the final liabilities using a discount rate which is based on a “minimum risk” approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities and a more prudent mortality assumption as above. Typically this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities.

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of admission as follows:-

(I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

Under the Regulations any payment requested from the outgoing admission body is ultimately guaranteed by the parent authority if it cannot be reclaimed by the Fund from the body or bond provider. In addition there are usually contractual arrangements between the parent authority and the body dealing with the allocation/split of the termination payment.

If the parent authority confirms that it is prepared to absorb any residual assets and liabilities going forward (i.e. the deferred pensioner and pensioner members left behind along with the corresponding assets) then in the view of the Actuary, the ongoing valuation basis described above should be adopted for the termination calculations. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium risk asset bucket. Indeed it may be that the Fund is prepared to accept that all assets/liabilities can simply be absorbed by the guarantor. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis. If the parent authority refuses to take responsibility then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case.

(II) NON-CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN THE FUND

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed it may be that the Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

(III) ADMISSION BODIES WITH NO GUARANTOR IN THE FUND

These are cases where the residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although the approach in 3. above could apply at the discretion of the Administering Authority.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –

- an actuarial valuation as at the date it ceases of the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"),

- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the revised contributions due from the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –
  a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 , the revised contributions due from the body which is the related employer in relation to that admission body, and
  b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX E – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENT

For certain employers in the Fund, following discussions with the Fund Actuary and after considering potential alternative insurance arrangements, a captive insurance arrangement is to be established by the Administering Authority to cover ill-health retirement costs. This will apply for all ill-health retirements from 1 April 2017.

The captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2017/20 is 1% p.a.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements i.e. there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will be included in the captive are Academies, Community related Admitted Bodies and Resolution Bodies. These employers will be notified of their participation. New employers entering the Fund who fall into this category will also be included.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

APPENDIX F - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Corporate Bond Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets.

Discount Rate: the rate of interest used to convert a future cash amount e.g. a benefit payment occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate (Primary Rate): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Investment Bucket: this describes a bespoke investment strategy which applies to one or more employers and is dependent on the liability and risk profile.

Ill Health Captive: this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

Solvency/Funding Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the Administering Authority will manage employer's contributions to the Fund.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Past Service Liabilities: this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**INVESTMENT STRATEGY STATEMENT**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report approval from Members for the draft Investment Strategy Statement (ISS) which is attached as an appendix to this report.

1.2 Approval is also sought for the revised Asset Allocation Strategy on page two of the ISS.

1.2 At Committee in November 2016, Members considered the implications of the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations") issued by The Department for Local Government and Communities (DCLG) and the accompanying guidance in relation to the requirement for administering authorities to prepare and maintain an Investment Strategy Statement which must be in place no later than 1 April 2017.

1.3 The Investment Strategy Statement will replace the Fund's Statement of Investment Principles.

2.0 BACKGROUND AND KEY ISSUES

Statutory Background

2.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The Investment Strategy Statement replaces the Fund's existing Statement of Investment Principles (SIP).

2.2 The Investment Strategy Statement required by Regulation 7 must include:-

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2.3 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

2.4 The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

2.5 The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.

2.6 The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

3.0 INVESTMENT STRATEGY

3.1 In conjunction with the Actuarial Valuation and Funding Strategy Statement (the subject of separate reports on this agenda), investment strategy is also reviewed with the Fund's advisors to ensure that the Fund's asset allocation will deliver investment returns over the long term to secure the long term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities whilst taking an appropriate level of risk.

3.2 No significant changes are proposed. At November's Committee meeting, Members approved an increase in the allocation to Infrastructure from 5% to 7%. This is reflected in the new investment strategy and has been funded by reductions in the existing allocations to bonds and hedge funds.

4.0 OTHER OPTIONS CONSIDERED

4.1 The Regulations are a mandatory requirement.

5.0 CONSULTATION

5.1 Employers have been consulted on the revised FSS and investment strategy.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 None.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 None.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members approve the Investment Strategy Statement and the revised investment strategy.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a statutory requirement for the Fund to prepare and maintain an Investment Strategy Statement.

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APPENDICES

Investment Strategy Statement

BACKGROUND PAPERS/REFERENCE MATERIAL

Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement Department for Communities and Local Government September 2016

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

MERSEYSIDE PENSION FUND

INVESTMENT STRATEGY STATEMENT 2017

This Investment Strategy Statement has been prepared in accordance with Statutory Instrument 2016 No. 946 PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Statutory Provisions

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

Regulation 7 (2) stipulates that the Investment Strategy Statement required by Regulation 7(1) must include:-

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential "downside" effects of financial market volatility.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund's strategic asset allocation in the table below.

Strategic Asset Structure

Asset Class	**Strategic Benchmark %**	**Detail %**	**Control Range**
Equities			**48.0-58.0**
UK Equities	**23**		
Overseas Equities	**30**		
US		8	
European (ex UK)		8	
Japan		4	
Asia Pacific		4	
Emerging Markets		6	
Fixed Interest	**18**		**13.0-23.0**
UK Gilts		4	
UK Indexed Linked Gilts		10	
Corporate Bonds		4	
Property	**8**		**5.0-11.0**
Alternatives	**21**		**16.0-26.0**
Private Equity		5	
Hedge Funds		4	
Opportunities		5	
Infrastructure		7	
Cash			**0.0-6.0**
Total	**100**		

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Investment Consultant and Independent Advisors under the auspices of its Medium Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The fund's investment strategy is underpinned by certain core philosophies pertaining to individual asset classes *inter alia:*

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in in equities or other assets that have a return profile that is more volatile than liability matching assets

- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments

- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk

- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited.

- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term.

The fund has written investment philosophies for each of the internally managed portfolios which derive from the core philosophies above. These portfolios are ; UK Equities, European Equities, Opportunities, Direct Property, Indirect Property, Private Equity, Hedge Funds, Infrastructure and Catalyst Fund.

Under the triennial review the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;

- To maintain sufficient assets to pay all benefits as they arise;

- To implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;

- To provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

  The Fund's Investment Consultant provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

  In addition to providing a review of the Fund's investment strategy, the Investment Consultant also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter term strategic time horizon, the Investment Consultant also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium Term Tactical Asset Allocation framework in which the Investment Consultant advises and makes recommendations on the magnitude of medium term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

The suitability of particular investments and types of investments

The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed on a quarterly basis by the Fund's Investment Management Working Party and its Independent Advisors to ensure that returns, risk and volatility are all appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Investment Consultant undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A detailed report is produced by the Investment Consultant and presented to the IMWP on a quarterly basis for discussion.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a clearly determined approach to its risk tolerance subject to the principal objective of maximising the returns from its global investment activities within reasonable risk parameters.

Accordingly, the Fund’s Actuary has identified the following key risks:

- 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 re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly higher than anticipated
- Longevity continues to increase at a greater rate than anticipated
- Regulatory changes
- Changes to national pension requirements and/or Inland Revenue rules

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Investment Consultant to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets.

In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets such as property, private equity, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

This is designed to provide the fund with a proxy insurance policy against major financial market dislocations.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by correcting positions created by market movements on a quarterly basis in accordance with the strategic advice of its Investment Consultant and discussions with its Independent Advisors.

The Fund's approach to pooling investments including the use of collective investment vehicles and shared services

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416bn, which is in excess of the £25bn criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-today cash is assumed to be 1% of total assets for each fund.

For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships.

Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally.

The reviews will take place no less than every 3 years.

Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:

- Implement the strategic asset allocations of the participating authorities
- Management of UK and Overseas equities and bonds
- Selection of private equity, infrastructure & property funds.
- Direct UK infrastructure investment via a collective investment vehicle
- Legal and accounting support
- It is intended that the Pool will externally procure the following services:
- External fund management for certain mandates
- Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
- Investment management systems
- Audit services
- Performance analytics
- Responsible Investment advisory services
- Value for money reviews of structure

A Pool Oversight Board will be established to:

i) provide oversight of the Pool; and

ii) act as a forum for the participating authorities to express the views of their pension committees.

The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.

The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.

The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings.

Officers of the Pool will also report to and present directly the administering authorities' pension committees and local pension boards as appropriate.

A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

Merseyside Pension Fund pursues a policy of Responsible Investment, arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected. Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all of its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system.

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates. The Fund evaluates and monitors the RI capability of all of its investment managers, often with reference to industry standards of best practice. MPF is a signatory of the Principles for Responsible Investment and is committed to reporting on its implementation of these Principles and promoting them across the investment industry.

MPF does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government. However, MPF considers that this does not necessarily preclude the use of ESG integration techniques, including screening, within particular mandates where the investment objective includes the optimisation of ESG-related risk and opportunity.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered through-out the governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.

MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a 'finance-first' investor). Social impact or thematic investing may provide access to diverse opportunities, uncorrelated to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF's participating employers.

The exercise of rights (including voting rights) attaching to investments

MPF considers that practicing responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership. The practice of stewardship is closely aligned to MPF's duty to act in the best interests of all of its stakeholders. The Fund is a signatory to the UK Stewardship Code for Institutional Investors and has published a Statement of Compliance with its seven principles.

MPF's policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund). In accessing any co-mingled investment vehicle with the objective of matching the performance of a stock market index, the Fund will expect the manager to implement its voting instructions over the underlying securities on a pro rata basis.

The Fund implements its voting policy in partnership with a specialist advisor (currently PIRC Ltd) who provides appropriate research and vote execution services that cover the major markets in which shares with voting rights are held. MPF votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party. A summary of voting activity forms part of the Fund's Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company's recommendation, is made publicly available through the Fund's website.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio. As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the Local Authority Pension Fund Forum, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity.

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**ANNUAL LGPS TRUSTEES CONFERENCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report requests nominations to attend the thirteenth Annual LGPS Trustees' conference organised by the Local Government Pensions Committee from 29 to 30 June 2017 in Bournemouth.

2.0 BACKGROUND AND KEY ISSUES

2.1 The LGPC trustees' conferences are specifically aimed at elected members with responsibility for the Local Government Pension Scheme but is open to officers and other scheme member representatives who support pensions committees or hold pension fund investment or administration responsibilities. It is also of interest to local pension board members.

2.2 The programme for this year's conference "Brave New World" has yet to be finalised but, as is apparent from the title, pooling of investments is to the forefront of everyone's mind and topics likely to be included are:

- Pooling – Transition management
- Article 50 – Short, medium and long-term effects
- MIFIDII and IORPII – Still a reality
- Cost Management Mechanism – 49^{ths} affordable?
- Deficits Down? - Employer Contributions Up?
- Comparing like-for-like – Consistency of data
- Legal Update

The event is to be held in the Highcliff Marriott Hotel, Bournemouth and will have its popular lunchtime-to-lunchtime format commencing on Thursday 29 and concluding on Friday 30 June 2016.

2.3 MPF has been represented at previous LGPC Conferences with a general invitation to Committee members.

2.5 Accommodation will be required for the night of 29 June 2015.

3.0 RELEVANT RISKS

3.1 The Fund is required to demonstrate that Members of Pensions Committee have been adequately trained. This conference is a recognised training opportunity.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The actual cost of attendance plus a night's accommodation is not yet known but is expected to be around £700 + VAT per delegate, including travel, which can be met from the existing Pension Fund budget.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Committee considers if it wishes to send a delegation to attend this conference and, if so, to determine the number and allocation of places.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The conference forms a part of the Members' development plan approved by Committee in January 2017.

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APPENDICES

NONE

BACKGROUND PAPERS/REFERENCE MATERIAL

NONE

BRIEFING NOTES HISTORY

Briefing Note	Date
Annual report to Committee	

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**PLSA LOCAL AUTHORITY CONFERENCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report requests nominations for members to attend the Pensions & Lifetime Savings (PLSA (formerly NAPF)) Local Authority Conference 2016 to be held in Gloucester from 15 May to 17 May 2017.

2.0 BACKGROUND AND KEY ISSUES

2.1 The PLSA Local Authority Conference is a specialist pension event for Local Authorities, designed to look at the ever-changing Local Government Pension Scheme.

This year's conference addresses investment and administrative issues affecting the LGPS including communication, the future or admitted and other bodies in the LGPS, governance and scheme funding

The full agenda is available at:
http://www.plsa.co.uk/Conferences_and_Seminars/Local_Authority_Conference/Programme.aspx

2.2 Merseyside Pension Fund is a member of the PLSA which represents some 10 million employees in pension schemes. The NAPF seeks to make effective representation to encourage provision as well as sound stewardship of pension fund assets.

2.3 MPF has been represented at all previous PLSA Local Authority Conferences usually by the Chair of Pensions Committee and party spokespersons.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The cost of attendance plus two nights' accommodation will be £375 + VAT per delegate, excluding travel, which can be met from the existing Pension Fund budget.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Committee considers if it wishes to send a delegation to attend this conference and, if so, to determine the number and allocation of places.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Attendance at this conference is a part of the development programme approved by Members in January 2017.

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APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**MONITORING OF GIFTS, HOSPITALITY AND BUSINESS EVENTS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with a summary of monitoring/training events attended by officers of the Fund and details of gifts and hospitality received over the 12 months to September 2016.

2.0 BACKGROUND AND KEY ISSUES

2.1 In November 2012, this Committee approved new guidance in relation to the declaration of gifts and hospitality received by officers and those members of Committee that are not otherwise subject to personal conduct arrangements.

2.2 The guidance is reflected by Wirral in its overall governance arrangements and is set out in the Fund's Compliance Manual, reflecting the practicalities of the Pension Fund's business needs.

2.3 Appendix 1 provides a schedule of declarations from October 2015 to December 2016.

3.0 RELEVANT RISKS

3.1 It is important that the Fund has clear guidelines and that officers' activities are subject to review by Committee.

3.2 A failure to recognise and allow for the differences of the Fund's business activities may inhibit the Fund's development and monitoring arrangements and incur additional costs.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Committee notes the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 It is important that the Fund has clear guidelines and that officers' activities are subject to review by Committee to ensure transparency.

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APPENDICES

Appendix 1 Register of Gifts and Hospitality
Appendix 2 Register of Business Events

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**17 November 2015**
Pensions Committee	**19 November 2014**
Pensions Committite	**24 June 2013**

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Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department : **DELIVERY SERVICES** **Section :** **MPF**

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
LEYLAND OTTER	DINNER – FOLLOWING THE AGM HELD AT THEIR OFFICE.	£40-50	AMP	6 OCT 15	NO	YES			
SUSANNAH FRIAR	EVENING MEAL – ATTENDESS/PRESENTERS BEFORE CONFERENCE NEXT DAY.	£35	SPS CONFERENCE	7 OCT 15	NO	YES			
LINDA DESFORGES	DINNER – MET WITH PACIFIC RIM MANAGER WHO CAME TO LIVERPOOL BEFORE IMWP.	£60	MAPLE-BROWN ABBOTT	7 OCT 15	NO	YES			
LEYLAND OTTER	DINNER – FOLLOWING AN UPDATE MEETING ON THE DISTRESSED OPPS FUND	£30-40	SCOTTS COVE	15 OCT 15	NO	YES			
GREG CAMPBELL	DINNER – INFORMAL CHAT ABOUT CURRENT INVESTMENT THEMES.	£60	SCOTTS COVE	15 OCT 15	NO	YES			
LINDA DESFORGES	DINNER – WITH MANAGER FOLLOWING PRESENTATION ON THE FUND.	£60	SCOTT’S COVE	15 OCT 15	NO	YES			
PETER WALLACH	ANNUAL CLIENT COCKTAIL RECEPTION	£40	Gsam	12 NOV 15	NO	DECLINED			

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Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department : **DELIVERY SERVICES** **Section :** **MPF**

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Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
PETER WALLACH	CHOCOLATES	£50	NOT KNOWN – SENT TO OFFICE	14 NOV 15	NO	YES	RAFFLED – MONEY DONATED TO CHILDREN IN NEED.		
GREG CAMPBELL	LUNCH – BACKGROUND ON VENTURE CAPITAL AND KNIGHTSBRIDGE	£30	KNIGHTSBRIDGE CAPITAL	18 NOV 15	NO	YES			
OWEN THORNE	FLIGHT TO GENEVA & HOTEL ACCOMMODATION – TRAVEL COSTS PART OF AN INVITATION TO SPEAK ON A PANEL AT PRI's EUROPEAN ASSET OWNER CONFERENCE ON 7 DECEMBER 2015	£800	PRINCIPLES FOR RESPONSIBLE INVESTMENT	23 NOV 15	NO	DECLINED			
PETER WALLACH	DINNER – COOK AND DINE INVITATION	£50	Gsam	2 DEC 15	NO	DECLINED			
SUSANNAH FRIAR	LUNCH – PROPERTY UPDATE	£30	MAYFAIR CAPITAL	11 DEC 15	NO	YES			
PETER WALLACH	LUNCH – CATCH UP ON LGPS POOLING	£27	MAN GROUP	14 DEC 15	NO	YES			
PETER WALLACH	CHOCOLATES SENT TO OFFICE	£30	INVESCO	14 DEC 15	NO	YES	RAFFLED FOR MAYOR'S FUND		
LINDA DESFORGES	LUNCH FOLLOWED BY A MEETING WITH MANAGER OF M&G RECOVERY FUND	£30	M&G	16 DEC 15	NO	YES			

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LINDA DESFORGES	2 X BOX OF CHOCOLATES. 1 EACH FOR LEYLAND OTTER AND LINDA DESFORGES.	£16	CAPITAL DYNAMICS	17 DEC 15	NO	YES	RAFFLED FOR MAYOR'S FUND		
ALLISTER GOULDING	OTEL CHOCOLATE WREATH BOX	£40	STIFEL	21 DEC 15	NO	YES			
LINDA DESFORGES	BOTTLE OF WINE – DELIVERED TO OFFICE	£40	ANTARES	4 JAN 16	NO	YES	TO BE RAFFLED FOR CHARITY		
PETER WALLACH	BOOK – SENT TO OFFICE	£30	UNIGESTION	6 JAN 16	NO	YES	RAFFLED FOR MAYOR'S FUND		
PETER WALLACH	LUNCH – UPDATE ON BUSINESS AND MARKETS	£26	UNIGESTION	14 JAN 16	NO	YES			
PETER WALLACH	INVITATION TO CHESTER RACES	£30	MERCER	28 JAN 16	NO	DECLINED			
OWEN THORNE	WORKING LUNCH, CONTINUATION OF STRATEGIC PLANNING DISCUSSION	£30	CAPITAL DYNAMICS	29 JAN 16	NO	YES			
LINDA DESFORGES	LUNCH INBETWEEN A FULL DAY REVIEW MEETING.	£30	CAPITAL DYNAMICS	29 JAN 16	NO	YES			
PETER WALLACH	LUNCH – FOLLOWING BUSINES MEETING	£35	GOLDMAN SACHS	5 FEB 16	NO	YES			
CRAIG COLE	INVITE TO GRAND NATIONAL	£50	SANTANDER	17 MAR 16	YES	DECLINED			

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GREG CAMPBELL	LUNCH – UPDATE ON INVESTMENT	£30	LOMBARD ODIER	13 APR 16	NO	YES			
PETER WALLACH	LO MANAGE A SMALL/MID CAP FUND FOR THE INTERNAL EUROPEAN PORTFOLIO. BUSINESS MEETING TO UPDATE ON PROGRESS.	£25	LOMBARD ODIER	13 APR 16	NO	YES			
NEIL GILL	DINNER – OPPORTUNITY TO MEET THE MANAGER OF THE NEWTON UK EQUITY FUND TO HEAR ABOUT DEVELOPMENTS WITHIN THE TEAM AND INVESTMENT OPPORTUNITIES.	£35	NEWTON INVESTMENT MANAGEMENT	18 APR 16	NO	YES			
LINDA DESFORGES	OPPORTUNITY TO MEET THE MANAGER OF THE NEWTON UK EQUITY FUND TO HEAR ABOUT TEAM DEVELPMENTS AND INVESTMENT OPPORTUNITIES.	£35	NEWTON INVESTMENT MANAGEMENT	18 APR 16	NO	YES			

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OWEN THORNE	LUNCH AS PART OF BUSINESS MEETING TO DISCUSS OUR INVESTMENT IN M&G RECOVERY FUND AND RELATED ISSUES OF STEWARDSHIP.	£35	M&G INVESTMENTS	21 APR 16	NO	YES			
PETER WALLACH	CLIENT INVITATION TO CRICKET	£25	AMP	28 APR16	NO	DECLINED			
PETER WALLACH	LUNCH - FOLLOWING A BUSINESS MEETING	£35	CAPITAL DYNAMICS	10 JUN 16	NO	YES			
OWEN THORNE	LUNCH – FOLLOWING A BUSINESS MEETING	£30	CAPITAL DYNAMICS	10 JUN 16	NO	YES			
LINDA DESFORGES	LUNCH FOLLWING A MANAGER MEETING	£35	CAPITAL DYNAMICS	10 JUN 16	NO	YES			
PETER WALLACH	DINNER – VISITING LIVERPOOL FOR CONFERENCE. OPPORTUNITY TO MEET WITH FOUNDER.	£35	MAN GROUP	13 JUN 16	NO	YES			
OWEN THORNE	DINNER – EVENING MEAL FOLLOWING BRIDGES ANNUAL INVESTOR MEETING.	£30	BRIDGES VENTURES	21 JUN 16	NO	YES			
PETER WALLACH	COCKTAILS – INVITATION TO GATHERING TO MEET NEW CEO.	£35	ALLIANCE BERNSTEIN	7 JUL16	NO	DECLINED			

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OWEN THORNE	LUNCH WAS CONTINUATION OF BUSINESS MEETING WITH EDHEC	£20	EDHEC SCIENTIFIC BETA	25 AUG 16	YES	YES			
PETER WALLACH	ROYAL PHILHARMONIC ORCHESTRA 70TH ANNIVERSARY GALA CONCERT – GENERAL CLIENT INVITATION.	£50	NORTHERN TRUST	19 SEP 16	NO	DECLINED			
GREG CAMPBELL	DINNER – BUSINESS COURTESY, POST INVESTMENT UPDATE	£60	SCOTTS COVE	6 OCT 16	NO	YES			
LINDA DESFORGES	DINNER WITH FUND MAGER FOLLOWING FUND UPDATE MEETING.	£50	SCOTTS COVE	6 OCT 16	NO	YES			
LEYLAND OTTER	LUNCH – BUSINESS MEETING	£25	IMPAX INVESTMENT MANAGEMENT	10 OCT 16	NO	YES			
OWEN THORNE	DINNER FOR INVITED GUESTS VISITING LIVERPOOL FOR THE PLSA ANNUAL CONFERENCE & EXHIBITION 2016.	£30	FTSE RUSSELL	19 OCT 16	YES	YES			
LEYLAND OTTER	LUNCH – INTRODUCTORY MEETING	£25	TEMPORIS CAPITAL	26 OCT 16	YES	YES			
GREG CAMPBELL	LUNCH – INTRODUCTION TO THEIR PRODUCTS	£30	TEMPORIS	26 OCT 16	YES	YES			

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LINDA DESFORGES	LUNCH – TO MEET WITH CEO OF FARMLAND PATNERS WHO ARE TAKING OVER AMERICAN FARMLAND.	£40	OPTIMA INVESTMENT MANAGEMENT	1 DEC 16	NO	YES			
LINDA DESFORGES	DRINKS RECEPTION TO MEET WITH PARTNERS AND OTHER INVESTMENT PROFESSIONALS FROM GCM GROSVENOR AND ALSO OTHER BUY-SIDE INVESTMENT PROFESSIONALS.	£30	GCM GROSVERNOR	6 DEC 16	NO	YES			
PETER WALLACH	BOX OF CHOCOLATES RECEIVED BY POST	£25	INVESCO	16 DEC 16	NO	YES	RAFFLED FOR MAYOR'S CHARITY.		
LINDA DESFORGES	CHOCOLATE SENT THROUGH THE POST	£30	CAPITAL DYNAMICS	19 DEC 16	NO	YES	RAFFLED FOR MAYOR'S CHARITY.		
PETER WALLACH	LUNCH MEETING WITH MANAGEMENT	£30	NORTHERN TRUST	20 DEC 16	NO	YES			
PETER WALLACH	LUNCH FOLLOWING BUSINESS MEETING	£35	CAPITAL DYNAMICS	21 DEC 16	NO	YES			

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OWEN THORNE	LUNCH A CONTINUATION OF ANNUAL STRATEGY & PORTFOLIO REVIEW MEETING WITH STRATEGIC PARTNERS FOR PRIVATE EQUITY INVESTING.	£30	CAPITAL DYNAMICS	21 DEC 16	NO	YES			
LINDA DESFORGES	LUNCH FOLLOWING BUSINESS MEETING TO DISCUSS CAPITAL DYNAMICS LGPS PE FUND	£35	CAPITAL DYNAMICS	21 DEC 16	NO	YES			
LEYLAND OTTER	LUNCH FOLLOWING BUSINESS MEETING TO DISCUSS CAPITAL DYNAMICS LGPS PE FUND	£35	CAPITAL DYNAMICS	21 DEC 16	NO	YES			
LINDA DESFORGES	WINE SENT THROUGH THE POST AS CHRISTMAS GIFT	£50	ANTARES EUROPEAN FUND	23 DEC 16	NO	YES	ASSIGNED TO 2017 CHRISTMAS RAFFLE.		

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REGISTER OF SUBSIDISED BUSINESS EVENTS

Department : Delivery Services, MPF

Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
PETER WALLACH	BIENNIAL CLIENT INVESTMENT CONFERENCE. TRAVEL, ACCOMMODATION AND MEALS ETC PROVIDED.	UNIGESTION	30 SEPTEMBER – 2 OCTOBER 2015
DONNA SMITH	CIPFA PENSIONS NETWORK WORKSHOP OPPORTUNITY TO HEAR A NUMBER OF PRESENTATIONS ON THE CHALLENGES CURRENTLY FACING LGPS. LUNCH INCLUDED.	CIPFA	1 OCTOBER 2015
SUSANNAH FRIAR	PROPERTY & REAL ASSET INVESTMENT STRATEGIES CONFERENCE. LUNCH INCLUDED.	SPS	8 OCTOBER 2015
LINDA DESFORGES	ANNUAL INVESTOR DAY UPDATE ON INVESTMENTS WITH F&C TEAM, GP'S FROM UNDERLYING FUNDS AND OTHER LP'S. ACCOMMODATION/MEALS INCLUDED.	F&C	27 OCTOBER 2015
DONNA SMITH	OPPORTUNITY TO HEAR FROM EXPERTS ON A RANGE OF TOPICS AFFECTING LGPS. MEAL INCLUDED.	CIPFA	11 NOVEMBER 2015
LINDA DESFORGES	LUNCH AND DINNER – OPPORTUNITY TO MEET WITH CARLYLE PARTNERS, DIRECTORS AND OTHER INVESTMENT PROFESSIONAL. MEAL INCLUDED.	CARLYLE CAPITAL PARTNERS	16 NOVEMBER 2015
PETER WALLACH	ATTENDANCE AT IPE PENSION CONFERENCE & AWARDS. OPPORTUNITY TO MEET WITH OTHER PENSION FUNDS. REPRESENT MPF AT AWARDS CEREMONY. MEAL, ACCOMMODATION AND TRAVEL.	IPE	18–20 NOVEMBER 2015
SUSANNAH FRIAR	LOCAL AUTHORITY PENSION FUND INVESTMENT CONFERENCE SPECIAL PENSIONS SERVICE EVENTS ORGANISER ON TOPICAL ISSUES. MEAL INCLUDED.	SPS	19 NOVEMBER 2015
SUSANNAH FRIAR	ADVISORY BOARD MEETING – MEAL AFTER MEETING WITH OTHER MEMBERS.	BRIDGES VENTURES – PROPERTY	1 DECEMBER 2015
SUSANNAH FRIAR	REAL ESTATE FORUM VARIOUS PRESENTATIONS ON PROPERTY. MEAL INCLUDED.	ALT ASSETS	3 DECEMBER 2015

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REGISTER OF SUBSIDISED BUSINESS EVENTS

Department : Delivery Services, MPF

Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
SUSANNAH FRIAR	ANNUAL EVENT OF PROPERTY MANAGERS COVERING PROPERTY, EQUITY INCOME AND OTHER SUBJECTS AND A SHORT PRESENTATION FROM FUND MANAGERS TO SHOW HOW THEY OPERATE IN VOLATILE MARKETS, MEALS PROVIDED.	WINTERFLOOD	21 JANUARY 2016
PETER WALLACH	ATTENDANCE AT LAPF STRATEGIC INVESTMENT FORUM, ACCOMMODATION AND MEALS PROVIDED.	LAPF	4 FEBRUARY 2016
SUSANNAH FRIAR	DUE DILIGENCE TOUR OF ASSETS IN FUNDS 3 AND 4 MPF INVESTED IN, TRAVEL, ACCOMMODATION AND MEALS PROVIDED.	EUROPA CAPITAL	8-11 FEBRUARY 2016
SUSANNAH FRIAR	ANNUAL MEETING FOR WHOLE GROUP ANNUAL ADVISORY BOARD MEETING. TRAVEL, ACCOMMODATION AND MEALS PROVIDED.	PARTNERS GROUP	15-19 MARCH 2016
PETER WALLACH	ANNUAL INVESTMENT CONFERENCE NEWTON MANDATE PART OF BNY BUSINESS. ACCOMMODATION AND MEALS PROVIDED	BNY MELLLON	17 MARCH 2016
DONNA SMITH	PROFESSIONAL DEVELOPMENT PROGRAMME FOR LGPS ON POOLING. TRAINING EVENT FOR POOLING. MEALS PROVIDED.	BNY MELLON	18 APRIL 2016
LINDA DESFORGES	ANNUAL INVESTOR MEETING COVERING PRIVATE EQUITY. PRIVATE DEBT, INFRASTRUCTURE AND PROPERTY. UPDATE ON FUNDS IN THE NON-LISTED SPACE AND INVESTMENT OPPORTUNITY OUTLOOK. ACCOMMODATION AND MEALS PROVIDED.	PARTNERS GROUP	19-20 APRIL 2016
PETER WALLACH	ATTENDANCE AT ADVISORY BOARD MEETING. SEVERAL PRIVATE EQUITY HOLDING WITH F&C. ACCOMMODATION, MEALS AND TRAVEL PROVIDED.	BoM F&C PRIVATE EQUITY	20-21 APRIL 2016
LINDA DESFORGES	PROPERTY AND REAL ASSET INVESTMENT, STRATEGIC CONFERENCE AND ADVISORY BOARD. UPDATE ON SOF 1 & II. DISCUSSION ON CONFLICTS OF INTEREST. MEALS PROVIDED.	SL CAPITAL	28 APRIL 2016
ADIL MANZOOR	ATTENDANCE AT INVESTOR FORUM, VARIOUS SESSIONS ON CURRENT INVESTMENT TOPICS. DUE TO EARLY INFRASTRUCTURE SESSION ALL DELEGATES OFFERED FREE ACCOMMODATION IN ORDER TO FACILITATE PARTICIPATION IN SESSION. TRAVEL OFFERED BUT DECLINED. ACCOMMODATION PROVIDED.	CITY WIRE FINANCIAL INVESTOR FORUM	28 APRIL 2016

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REGISTER OF SUBSIDISED BUSINESS EVENTS

Department : Delivery Services, MPF

Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
DONNA SMITH	WORKSHOP ON ASSET POOLING IN THE LGPS PRACTICAL STEPS AND LESSONS LEARNT. TRAINING EVENT ON POOLING. MEALS PROVIDED.	CIPFA PENSIONS NETWORK	28 APRIL 2016
SUSANNAH FRIAR	PROPERTY & REAL ESTATE ASSET INVESTMENT, STRATEGIC CONFERENCE - ANNUAL MEETING/PROPERTY TOUR. ANNUAL MEETING PROVIDING PROGRESS OF FUND MEETING MANAGERS AND SENIOR ADVISOR TO THE FUND PARTNERS AND OTHER PARTNERS. ACCOMMODATION AND MEALS PROVIDED.	MERCER REAL ESTATE FUND II	3-5 MAY 2016
SUSANNAH FRIAR	PROPERTY & REAL ESTATE ASSET INVESTMENT, STRATEGIC CONFERENCE FINAL MEETING. LAST ANNUAL MEETING AS ASSETS ALL SOLD. SUMMARY OF PERFORMANCE WITH PRESENTATIONS. MEALS PROVIDED.	LEGAL & GENERAL	10-11 MAY 2016
SUSANNAH FRIAR	PROPERTY & REAL ESTATE ASSET INVESTMENT, STRATEGIC CONFERENCE. ACCOMMODATION, TRAVEL AND MEALS PROVIDED.	IPE REAL ESTATE	12-13 MAY 2016
SUSANNAH FRIAR	PROPERTY & REAL ESTATE ASSET INVESTMENT, STRATEGIC CONFERENCE - ANNUAL MEETING AND EUROPEAN REAL ESTATE CONFERENCE. ANNUAL HOTEL MEETING – EUROPEAN REAL ESTATE CONFERENCE AND GUEST SPEAKERS. MEALS AND ACCOMMODATION PROVIDED.	INVESCO REAL ESTATE	17-20 MAY 2016
ADIL MANZOOR	ATTENDED THE BLACKROCK ANNUAL MEETING/ADVISORY BOARD MEETING. TRAVEL, ACCOMMODATIOBN AND MEALS PROVIDED	BLACKROCK	18 – 20 MAY 2016
SUSANNAH FRIAR	PROPERTY & REAL ASSET INVESTENT. STRATEGIC CONFERENCE. ANNUAL MEETING. MET WITH MANAGERS AND CO-INVESTORS. SITE TOUR. ACCOMMODATION AND MEALS PROVIDED.	JP MORGAN	1-3 JUNE 2016
LINDA DESFORGES	INVESTMENT CONFERENCE. PRESENTATION ON BEHAVIOURAL ASPECTS OF INVESTING, ASSESS MANAGER SKILL AND MANAGING RISK. MEALS AND ACCOMMODATION PROVIDED.	INALYTICS	6-7 JUNE 2016

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REGISTER OF SUBSIDISED BUSINESS EVENTS

Department : Delivery Services, MPF

Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
PETER WALLACH	REGULAR USER GROUP MEETING OF LGPS FUNDS. SPONSOR ON THIS OCCASION WAS M&G REAL ESTATE. REGULAR LGPS USER GROUP MEETING FOR LGPS OFFICERS. MEALS PROVIDED.	MG REAL ESTATE.	15 JUNE 2016
OWEN THORNE	RI EUROPEAN 2016 CONFERENCE – ATTENDED FULL CONFERENCE, SPOKE ON PANEL DISCUSSING SOCIAL IMPACT OF BONDS – ATTENDED DINNER AS INVITED GUEST OF THE CONFERENCE ORGANISERS. RI EUROPE IS THE LEADING PRACTITIONERS IN EUROPE, LEARNING AND NETWORKING OPPORTUNITIES HIGHLY RELEVANT TO MY ROLE AND SUPPORTIVE OF THE FUND'S STRATEGIC OBJECTIVES (AND STANDING IN THE INDUSTRY). MEALS PROVIDED.	RESPONSIBLE INVESTOR	22-23 JUNE 2016
DONNA SMITH	WORKSHOP MEETING THE CHALLENGE OF GOOD GOVERNANCE. HEARD THE LATEST ISSUES FOR LGPS FROM A RANGE OF SPEAKERS. MEALS INCLUDED.	CIPFA PENSIONS NETWORK	6 JULY 2016
PETER WALLACH	ATTENDANCE AT ANNUAL CLIENT INVESTMENT CONFERENCE CLIENT – INVESTMENT CONFERENCE. ACCOMMODATION AND MEALS PROVIDED.	INVESCO	6-7 JULY 2016
PETER WALLACH	INVITED AS A SPEAKER TO ATTEND THE EUROPEAN ROUNDTABLE INVESTMENT CONFERENCE. ACCOMMODATION & MEALS PROVIDED.	INSTITUTIONAL INVESTOR	14-16 SEPTEMBER 2016
OWEN THORNE	THE FUND HAS COMMITMENTS OF OVER $30 MILLION IN TWO PRIVATE EQUITY FUNDS MANAGED BY SLP. SLP ARE A GLOBAL LEADER IN TECHNOLOGY INVESTING AND PROMINENT IN 'SILICON VALLEY'. THE EVENT WAS AN OPPORTUNITY TO MEET KEY INDIVIDUALS IN THE FIRM, RECEIVE PROGRESS UPDATES ON THE CURRENT FUNDS AND MEET OTHER INVESTORS. MEALS INCLUDED.	SILVER LAKE PARTNERS	27 SEPTEMBER 2016
SUSANNAH FRIAR	PRIVATE DEBT UNDERSTANDING RISKS AND OPPORTUNITIES LOW/NEGATIVE INDEX LINKED / GILT YIELDS – WHAT DOES THIS MEAN FOR PF's. MEALS INCLUDED.	(SPS) PRIVATE MARKETS INVESTOR FORUM/PENSION FUND INVESTMENT FORUM	29 SEPTEMBER 2016

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REGISTER OF SUBSIDISED BUSINESS EVENTS

Department : Delivery Services, MPF

Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
OWEN THORNE	RI COM 'ESG IN MANAGER SELECTION' CONFERENCE 2016 – ATTENDED EVENT AND SPOKE ON PANEL ABOUT LGPS POOLING AND RI AGENDA/OBJECTIVE. SCHRODERS & RI .COM HOSTED A PRE-CONFERENCE DINNER FOR INVITED GUESTS. INCLUDED MEALS.	RESPONSIBLE INVESTMENT.COM & SCHRODERS INVESTMENT MANAGEMENT	11-12 OCTOBER 2016
PETER WALLACH	INVESTMENT CONFERENCE SPEAKING ON POOLING ARRANGEMENTS. MEAL INCLUDED.	LEGAL GOVERNMENT PENSION INVEST FORUM/INFORMA	12 OCTOBER 2016
SUSANNAH FRIAR	PROPERTY AND REAL ASSET INVESTMENT STRATEGIES FOR PENSION FUNDS. MEAL INCLUDED.	SPS	13 OCTOBER 2016
LINDA DESFORGES	ANNUAL INVESTOR DAY FUND UPDATE AND MEETING WITH COMPANY MAGERS AND OTHER LP's. ACCOMMODATION AND MEALS INCLUDED.	KEY CAPITAL PARNERS	13 OCTOBER 2016
OWEN THORNE	SPOKE ON PANEL DISCUSSING ASSET OWNER DECARBONISATION STRATEGIES AND THE ROLE OF ILLIQUID ASSET CLASSES IN IMPLEMENTING THESE. MEALS INCLUDED.	ALTERNATIVE INVESTMENT FORUM: TIMBER & AGRICULTURE	19 OCTOBER 2016
OWEN THORNE	PANEL DISCUSSION: ANALYSING INTANGIBLES AND THE 'S' IN ESG. EMPLOYEE RELATIONS: WHY IS THIS THE LEAST TALKED ABOUT SUBJECT IN ESG? WHAT ARE THE LINKS BETWEEN SUSTAINABILITY AND DIVERSITY? HOW IS TECHNOLOGY GOING TO AFFECT THE WORKFORCE OF THE FUTURE? MEALS INCLUDED.	GLOBAL ESG FORUM	27 OCTOBER 2016
LINDA DESFORGES	ANNUAL INVESTOR MEETING. FUND UPDATES. MET WITH MANAGEMENT TEAMS AND OTHER PROFESSIONALS TO HEAR ABOUT OPPORTUNITIES. ACCOMMODATION AND MEALS INCLUDED.	BMO (OLD F&C)	01 NOVEMBER 2016
SUSANNAH FRIAR	CONFERENCE FOR REAL ESTATE WITH PRESENTATION BY FUND MANAGER INCLUDING LPP. MEALS INCLUDED.	INSTITURE REAL ESTATE FORUM	3 NOVEMBER 2016

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Officer's Name	Description/Nature of Event	Sponsor/ Arranger	Date of Event
DONNA SMITH	CIPFA PENSION NETWORK ANNUAL CONFERENCE. OPPORTUNITY TO HEAR FROM A RANGE OF SPEAKERS ON TOPICAL LGPS ISSUES. MEALS INCLUDED.	CIPFA	9 NOVEMBER 2016
AMANDA SMITH	CIPFA PENSION NETWORK ANNUAL CONFERENCE. OPPORTUNITY TO HEAR FROM A RANGE OF SPEAKERS ON TOPICAL LGPS ISSUES. MEALS INCLUDED.	CIPFA	9 NOVEMBER 2016
OWEN THORNE	ROUNDTABLE ON INITIATIVE – TCFD, TPI, CARBON FOOT PRINTING DIRECTLY RELEVANT TO DEVELOPMENT OF MPF's CLIMATE RISK STRATEGY. .	EAPF/AMUNDI	10 NOVEMBER 2016
LINDA DESFORGES	CARLYLE ANNUAL INVESTOR CONFERENCE FUND UPDATES, MEET WITH MANAGEMENT TEAMS AND OTHER PROFESSIONAL AND HEAR ABOUT OPPORTUNITIES. MEALS INCLUDED.	CARLYLE	14–15 NOVEMBER 2016
LINDA DESFORGES	DC LGPS ANNUAL INVESTOR MEETING AND ADVISORY BOARD. FUND UPDATES. MEET WITH CAPITAL DYNAMICS TEAM AND WITH OTHER LGPS INVESTORS. ACCOMMODATION AND MEALS INCLUDED.	CAPITAL DYNAMICS	17-18 NOVEMBER 2016
PETER WALLACH	ATTENDANCE AT ANNUAL INVESTMENT CONFERENCE. MEALS INCLUDED.	INVESTEC	22 NOVEMBER 2016
OWEN THORNE	ANNUAL GENERAL MEETING - MPF IS A MEMBER OF IIGCC – UPDATE ON ACTIVITIES IN 2016 AND A REPORT ON THE PROGRESS AT COP22 (MARRAKECH). .	IIGCC/FTSE RUSSELL	29 NOVEMBER 2016
PETER WALLACH	ATTENDANCE AT IPE PENSION CONFERENCE & AWARDS. OPPORTUNITY TO MEET WITH OTHER PENSION FUNDS AND REPRESENT MPF AT AWARDS CEREMONY. MEAL, TRAVEL AND ACCOMMODATION INCLUDED.	IPE	30 NOVEMBER 2016 – 2 DECEMBER 2016

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**COMPLIANCE MANUAL**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to seek Members approval of a revised Compliance Manual.

1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The Compliance Manual sets out the powers, duties and responsibilities of officers in respect of the financial services legislative and regulatory regimes relevant to MPF. Although the Pension Fund is not regulated by the Financial Conduct Authority (FCA) the manual incorporates, where appropriate, best practice as set out by the FCA and the codes of other professional bodies.

2.2 The manual is due for review every three years. The existing Compliance Manual was approved at Pensions Committee 24 March 2014.

2.3 The revised Compliance Manual is attached as Appendix 1 to this report.

2.4 The major changes to the manual are:

Reference	Change
3.4	New section on Pensions Boards
4.3.4	New section on The Pensions Regulator
4.4.2	New section on Contract Procedure Rules
5.3	New internally managed investment philosophies added for UK equities, European equities and the Catalyst Fund
5.5.7	Updated section for limits of delegated authority
5.6	Updated section for Investment Committee
5.7	Updated section for Investment Contracts
9.3.2	New section for compliance checks on capital calls

3.0 RELEVANT RISKS

3.1 The Compliance Manual is concerned with the mitigation of risks.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Committee approve the revised Compliance Manual.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The approval of the Compliance Manual for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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APPENDICES

Appendix 1 Revised Compliance Manual

BACKGROUND PAPERS/REFERENCE MATERIAL

Compliance Manual 2014

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	24 March 2014
Pensions Committee	24 June 2013

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WIRRAL COUNCIL
PENSIONS COMMITTEE
21 MARCH 2017

SUBJECT:	**MINUTES OF INVESTMENT MONITORING WORKING PARTY MEETING**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
KEY DECISION?	No

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the minutes of the Investment Monitoring Working Party held on 9 February 2017.

1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The IMWP meets at least six times a year to enable Members and their advisors to consider investment matters relating to Merseyside Pension Fund in greater detail.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

6.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 There are none arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) no, because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATIONS

11.1 That Members approve the Minutes of the IMWP meeting which are attached as an appendix to this report.

13.0 REASONS FOR RECOMMENDATIONS

13.1 The approval of IMWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

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APPENDICES
Exempt appendix

REFERENCE MATERIAL
None.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP meetings are brought to the subsequent Pensions Committee meeting.	

Minutes of Investment Monitoring Working Party, 9 February 2017

In attendance:

Councillor Paul Doughty (Chair) (WBC)	Peter Wallach (Director of MPF)
Councillor Geoffrey Watt (WBC)	Joe Blott (Managing Director, Delivery)
Councillor George Davies (WBC)	Leyland Otter (Senior Investment Manager)
Councillor Adrian Jones (WBC)	Linda Desforges (Investment Manager)
Councillor Brian Kenny (WBC)	Neil Gill (Investment Assistant)
Councillor Pat Cleary (WBC)	Daniel Proudfoot (Investment Assistant)
Councillor Terry Byron (WBC)	Noel Mills (Independent Advisor)
Councillor Tony Jones (WBC)	Dave Lyons (AON Hewitt)
Rohan Worrall (Independent Advisor)	Emma Jones (PA to Director of Pension Fund)

Apologies were received from:

Councillor Cherry Povall (WBC)	Joe Blott (Managing Director, Delivery)
Councillor Ann McLachlan (WBC) (Vice Chair)	George Davies (WBC)

Minutes of the meetings held on 24 November 2016.

The minutes were noted and approved.

Apologies and declarations of interest.

Councillor Geoffrey Watt, Councillor Paul Doughty, Councillor Terry Byron declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 MARCH 2017

SUBJECT:	**GOVERNANCE & RISK WORKING PARTY MINUTES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides members with the minutes of the Governance & Risk Working Party (GRWP) held 7 February 2017.

1.2 An exempt report on the agenda, the minutes of the GRWP, contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The GRWP meets twice yearly to enable Members and their advisors to consider governance and risk related matters, relating to Merseyside Pension Fund, in greater detail.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members approve the minutes of the GRWP

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The approval of the GRWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement on 27 June 2011.

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APPENDICES

Exempt Appendix 1 – Minutes

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
GRWP minutes are brought to the subsequent Pensions Committee meeting.	

Minutes of the Meeting of the Governance and Risk Working Party

Tuesday 7 February 2017

Present:

Councillor Paul Doughty (Chair)	Councillor George Davies (WBC)
Councillor Adrian Jones (WBC)	Councillor Ann McLachlan (WBC)
Councillor Brian Kenny (WBC)	Peter Wallach (Director of MPF)
Councillor Geoffrey Watt (WBC)	Yvonne Caddock (Principal Pensions Officer)
Councillor Paulette Lappin (Sefton)	Guy Hayton (Operations Manager)
Patrick Cleary (Unison)	Donna Smith (Group Accountant)

Apologies were received from:

Councillor Cherry Povall (WBC) Joe Blott (Managing Director Delivery)

Councillor Pat Cleary (WBC)

In attendance: Emma Jones.

1. Approval of Minutes

Minutes of G&RWP, dated Thursday 30 June 2016 were approved.

2. Declarations of Interest

Councillor Paulette Lappin declared a pecuniary interest by virtue of being a member of the Fund.

Councillor Geoffrey Watt declared an interest by virtue of a relation being a member of the Fund.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 16

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of the Local Government Act 1972.

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