Public Document Pack

Pensions Committee

Date:	**Monday, 14 September 2015**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer: Pat Phillips
Tel: 0151 691 8488
e-mail: patphillips@wirral.gov.uk
Website: http://www.wirral.gov.uk

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 - 6)

To approve the accuracy of the minutes of the meeting held on 22 June, 2015.

3. AUDIT FINDINGS REPORT (Pages 7 - 30)

4. PENSION FUND ACCOUNTS 2014/15 (Pages 31 - 34)

5. DRAFT ANNUAL REPORT (Pages 35 - 38)

6. LGPS UPDATE (Pages 39 - 60)

7. GOVERNMENT CONSULTATION ON PENSIONS TAXATION (Pages 61 - 70)

8. TERMINATION POLICY (Pages 71 - 80)

9. LGE FUNDAMENTAL TRAINING (Pages 81 - 84)

10. ANNUAL EMPLOYERS CONFERENCE (Pages 85 - 88)

11. LAPFF ANNUAL CONFERENCE (Pages 89 - 92)

12. ELECTED MEMBER EDUCATIONAL EVENT (Pages 93 - 100)

13. BOND REVIEWS (Pages 101 - 104)

14. IMWP MINUTES 19 JUNE 2015 (Pages 105 - 110)

15. GRWP MINUTES 30 JUNE 2015 (Pages 111 - 114)

16. 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.

17. BOND REVIEWS (Pages 115 - 118)

18. IMWP MINUTES 19 JUNE 2015 (Pages 119 - 130)

19. EXEMPT GRWP MINUTES (Pages 131 - 138)

20. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

PENSIONS COMMITTEE

Monday, 22 June 2015

Present:	Councillor	P Doughty (Chair)	
	Councillors	AR McLachlan	G Watt
		G Davies	C Povall
		T Johnson	P Cleary
		AER Jones	P Lappin
		B Kenny	
Deputy:	Councillor	D Elderton (for Cllr K Hodson)	
		P Wiggins, Unison	
Apologies	Councillors	K Hodson	
		N Crofts (Liverpool City Council)	
		J Fulham (St Helens Council)	
		W Weightman (Knowsley Council)	

1 **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.

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

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

Councillor Paulette Lappin 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.

2 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 24 March, 2015 be approved as a correct record.

3 **LGPS UPDATE**

A report of the Director of Transformation and Resources provided members with a position statement of the changes to the Fund's communication material and operational procedures following the introduction of the Freedom and Choice legislative framework.

Members were also advised that it was the Government's expectation that 10% of retirees would transfer to alternative defined contribution arrangements which offer the opportunity to cash out benefits in full.

The key revisions to the Local Government Scheme (Amendment) Regulations 2015 which came into force on 11 April 2015 were also discussed with the main focus on the payment of death grants.

Resolved – That the report be noted.

4 **PENSION FUND BUDGET**

A report of the Director of Transformation and Resources provided members with

- The out-turn for the financial year 2014/15.
- The finalised budget for the financial year 2015/16.
- The 3 year budget for MPF as required for the annual report.

Peter Wallach, Head of Merseyside Pension Fund reported that the actual out-turn for 2014/15 was £17.3m, lower than the original budget approved on 1 July 2014 and September 2014 of £19.1m and higher than the projected out-turn of £16.5m as reported at Pensions Committee on 19 January 2015. The finalised 2015/16 budget was £19.5m. The finalised out-turn was included in appendix 1of the report and the original appendix as reported to the Pensions Committee on 19 January 2015 was attached as appendix 2 of the report for information.

Resolved – That;

1. the out turn for 2014/15 be noted.

2. the finalised budget for 2015/16 be approved.

3. other issues for inclusion in the 2014/15 Annual Report including 3 year financial estimates be approved.

5 **TAX MANAGEMENT UPDATE**

The Pensions Committee considered a report that provided members with an update on the progress made by the Fund in:

- Recovering Withholding Tax (WHT) from UK and European tax authorities.
- Reclaiming tax on Manufactured Overseas Dividends (MOD).
- Reported on a Property VAT Audit conducted by KPMG during the Financial Year ended 2014/15.

Peter Wallach, Head of the Pensions Fund, informed the Committee that in order to assist in the recovery of European Withholding tax KPMG had been engaged as tax advisor as, in various tax jurisdictions, physical presence of the tax agent was necessary to initiate the claims.

The Committee were informed that in respect of the MOD claim, Pinsent Mason was leading the test case in the First Tier Tribunal, with KPMG as lead advisors, on behalf

of a group of claimants under a Group Funding arrangement. Merseyside Pension Fund was a part of that group.

It was also reported that KPMG had been appointed in 2009 and updates on progress had been brought to the Pensions Committee in September 2009, March 2011 and March 2013.

Resolved – That;

1. **the report be noted and that officers continue with the recovery of tax under existing arrangements.**
2. **the staff of the Merseyside Pension Fund be thanked for their work.**

6 **ANNUAL INVESTMENT PERFORMANCE**

A report of the Director of Transformation and Resources set out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2015 as computed and reported by the WM Company.

Peter Wallach, Head of the Pension Fund, reported that the Fund had returned 12.6 per cent in the financial year to the end of March 2015 compared to its bespoke benchmark return of 10.9 per cent, an outperformance of 1.5 per cent. The Pension Fund was the 5th largest in the UK and now had Premier status.

Resolved – That;

1. **the report be noted.**
2. **the staff be thanked for their excellent work in helping to achieve good long-term performance.**

7 **TREASURY MANAGEMENT ANNUAL REPORT**

The Pensions Committee considered a report that presented a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2014/15 financial year and reported any circumstances of non-compliance with the treasury management strategy and treasury management practices. The report had been prepared in accordance with the revised CIPFA Treasury Management Code.

Resolved – That the Treasury Management Annual Report for 2014/15 be noted.

8 **PENSION BOARD UPDATE**

A report of the Strategic Director of Transformation and Resources provided the Committee with an update on the progress achieved in establishing Wirral Council's Pension Board in accordance with statutory requirements prescribed within the Public Service Pension Act 2013 and the Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of both primary and secondary legislation was to provide assurance that all public service pension schemes and individual LGPS Funds were managed effectively with a properly constituted, trained and competent Pension Board monitoring compliance with legislation and best practice standards.

The Terms of Reference and composition of the Board had been approved by Council at its meeting on 16 March 2015 in compliance with the deadline to create a Local Pension Board by 1 April 2015.

Members of the Local Pension Board had now been appointed and the inaugural meeting of the Board was scheduled to take place on 14 July 2015. Appendices to the report covered the Training Event for Local Pension Board Members, Knowledge and Understanding Policy and the Conflict of Interest Policy.

Resolved – That the appointment of the employer and member representatives of Wirral Pension Board as agreed by the Selection Panel on 15 May 2015 and the formal policies in respect of 'Knowledge and Understanding' and 'Conflicts of Interest' be noted.

9 **NAPF ANNUAL CONFERENCE**

A report of the Director of Transformation and Resources requested nominations for members to attend the National Association of Pension Funds (NAPF) Annual Conference & Exhibition 2015 to be held in Manchester from 14 October to 16 October 2015. The NAPF Annual Conference provided a helpful insight to developments in the broader pensions industry. The agenda was attached as an appendix to the report. Peter Wallach, Head of Pensions, commented that Members did not necessarily have to attend all 3 days of the Conference but could attend those areas that would be most beneficial. The Chair of the Committee encouraged Members of the Committee to attend the Annual Conference.

Resolved – That:

1. the report be noted.

2. the Head of Pensions contact all members of the Pensions Committee with details of the NAPF Conference.

10 **LGC INVESTMENT SUMMIT**

A report of the Strategic Director of Transformation and Resources requested nominations for members to attend the Local Government Chronicle (LGC) Investment Summit, to be held in Newport from 10 to 11 September 2015.

The conference was themed "Funding for the future" and would provide critical insight to the ongoing debate about the future investment of pension funds in Local Government. The Chair of the Committee commented that this would be a worthwhile conference and encouraged members of the Committee to attend.

Resolved - That Members attendance at the Local Government Chronicle (LGC) Investment Summit be approved.

11 **IMWP MINUTES 16/04/2015**

A report of the Strategic Director of Transformation and Resources provided Members with the minutes of the Investment Monitoring Working Party (IMWP) held on 16 April 2015.

The appendix to the report, the minutes of the IMWP on 16 April 2015, contained exempt information. This was 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).

Resolved – That the minutes of the IMWP held on 16 April 2015 be approved.

12 **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.

13 **IMWP MINUTES 16/04/2015**

The appendix to the report on the IMWP Minutes 16 April, 2015 was exempt by virtue of paragraph 3.

14 **PAYMENT OF DEATH GRANT**

Members of the Pensions Committee considered an exempt report of the Strategic Director of Transformation and Resources that outlined details regarding the discharge of a Death Grant payment due to be made by Merseyside Pension Fund and the steps taken to establish the entitlement to a survivor's pension under the Local Government Pension Scheme Regulations 2013. Documents relating to the Death Grant payment were attached as exempt reports to the agenda. Following debate and having taken all relevant evidence before the Committee and no irrelevant matters into account: -

It was moved by Councillor Ann McLachlan and seconded by Councillor Treena Johnson that;

Payment of the Death Grant be made to option c) of the exempt report.

It was moved as an amendment by Councillor Cherry Povall and seconded by Councillor Geoffrey Watt that;

Payment of the Death Grant be made at a ratio of 1:3 to 2:3 to those named at option f) of the exempt report.

The amendment was put and lost (2:9).

The motion was put and carried (9:00) (2 abstentions).

Resolved – That the Death Grant be made to those named at option c) of the exempt report.

The Audit Findings for Merseyside Pension Fund

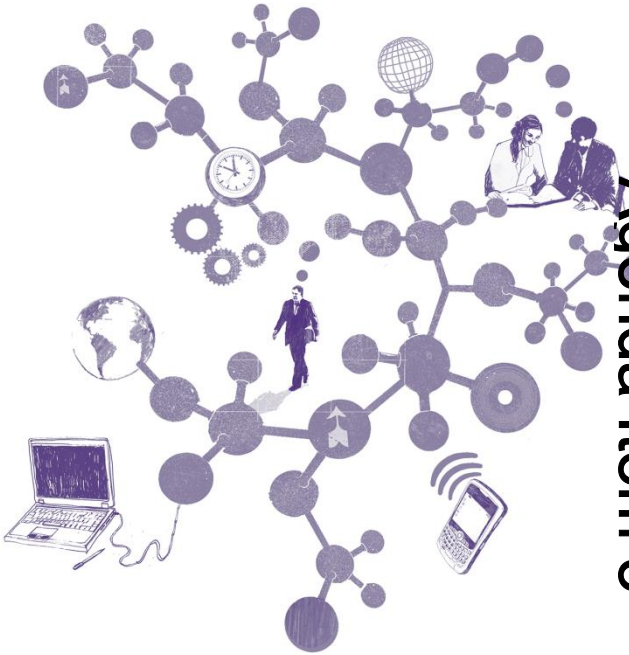
Year ended 31 March 2015

1 September 2015

Fiona Blatcher
Associate Director
T 0161 234 6393
E fiona.c.blatcher@uk.gt.com

Heather Green
Senior Manager
T 0161 234 6381
E heather.green@uk.gt.com

Chris Blakemore
Executive
T 0161 214 6397
E chris.blakemore@uk.gt.com



Grant Thornton

Audit and Risk Management Committee
Wirral Council
Wallasey Town Hall
Brighton Street
Wallasey
CH44 8ED

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T 0161 953 6900
www.grant-thornton.co.uk

1 September 2015

Dear Members

Audit Findings for Merseyside Pension Fund for the year ending 31 March 2015

The Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Merseyside Pension Fund, the Audit and Risk Management Committee of Wirral Council), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with Management.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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 would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Fiona Blatcher

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A Audit opinion

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Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Fees, non-audit services and independence
04. Communication of audit matters

We anticipate providing an unqualified opinion on the accounts of Merseyside Pension Fund.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Merseyside Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of outstanding information from fund managers and completion of testing on alternative investments
- Confirmation of ownership for a sample of property assets
- Confirmation of the Probation transfer value from the actuary
- completion of final specialist partner review
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the final version of the Pension Fund annual report.

We will review the Annual Report on completion of the accounts audit and then issue our separate audit statement on the pension fund annual report together with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the accounts were prepared to a good standard and supported by appropriate working papers.
- Officers have responded promptly to requests for additional information.

We have not identified any adjustments affecting the Fund's reported financial position. We have agreed with officers some minor adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

During the year officers have been working on a number of key projects including the transfer of assets and liabilities relating to the Probation Trust, new governance arrangements and the implementation of career average pensions. Especially in this context, the positive outcome from the audit of the accounts is a significant achievement.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

During our audit, officers made us aware of a small number of transactions and balances relating to duplicate payments on three occasions. These payments had been identified and corrected by the finance team, monies have been recovered and controls have now been strengthened. We are satisfied that the issues leading to these duplicate payments is not likely to have resulted in a material misstatement for the purposes of our opinion on the accounts. It was pleasing to see that the Fund's own normal control processes identified the existence of the duplicate payments and enabled corrective action.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of the Pension Fund and the finance team.

For 2014/15, CIPFA produced guidance to encourage more consistent and transparent reporting of management costs within LGPS fund accounts. There has been a wide range of practice from funds in the extent to which they have implemented this guidance in their 2014/15 accounts. In particular the identification and reporting of certain investment management costs is particularly complex and dependent on the availability of information from fund managers and custodians. We note that the Pension Fund is not yet fully applying the CIPFA guidance on reporting management costs, in relation to investment management costs. We understand through our discussions with officers that work is in progress to obtain the relevant information at a transactional level where possible to apply this guidance from 1 April 2015. As part of this exercise, appropriate regard is being had to the potential impact on the fund's current reconciliation processes and agreements with third parties.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
1 September 2015

Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Fees, non-audit services and independence
04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Risk Management Committee on 18 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 March 2015.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • review of journal controls and journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.
3.	**Level 3 Investments** Due to the nature of these investments, there is a risk that the valuation is incorrect since they require a significant degree of judgement to reach an appropriate valuation at year end.	• We have gained an understanding of the controls put in place by management to ensure the valuation of level 3 investments is not materially misstated at year end, and have assessed whether these controls have been implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • For a sample of investments, we have tested valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreed these to the fund manager reports at that date. • We have reviewed the nature and basis of estimated values within the underlying accounts.	We are still awaiting information from some fund managers to complete our work in this area, but our work completed to date has not identified any areas of material misstatement.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances, • We have tested a sample of level 2 investments to independent information from the custodian or fund managers on units and on unit prices. • For direct property investments, we have agreed values in total to the valuer's report and undertaken procedures to place reliance on the valuer as an expert.	Our audit work has not identified any significant issues in relation to the risks identified
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances. • We have tested a sample of investment income. • We completed a predictive analytical review of income due from different types of investments • For direct property investments, we have undertaken analytical procedures to rationalise income against a list of properties for expected rental income.	Our audit work has not identified any significant issues in relation to the risks identified
Investment purchases and sales	Investment activity not valid. (Valuation gross).	• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances • We have tested a sample of purchases and sales.	Our audit work has not identified any significant issues in relation to the risks identified

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of both normal and deficit funding contributions • undertaken analytical procedures	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls • tested a sample of lump sum payments and new pensioner payments • undertaken analytical procedures	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over member data • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of changes to member data during the year	Our audit work has not identified any significant issues in relation to the risk identified.

DRAFT

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Normal contributions are accounted for on an accruals basis, and employer deficit funding is accounted for on the due date set by the scheme actuary or on receipt if earlier than the due date. • Income from equities is accounted for when the related investment is quoted e dividend. Income from pooled investment vehicles and on short term deposits is accounted for on an accruals basis. Distributions from private equity are treated as a return of capital until the book value is nil and then treated as income on an accruals basis.	• The revenue recognition policies are appropriate to the accounting framework and are adequately disclosed in the accounting policies.	Green
Estimates and judgements	Key estimates and judgements include: • Valuation of unquoted investments within private equity, infrastructure property and other alternative investments.	• We have undertaken testing on a sample of unquoted investments to assess the appropriateness of the valuation. • The key estimates and judgements relating to the valuation of unquoted investments are appropriate to the accounting framework and are disclosed within the accounting policies. • The potential financial statement impact of different assumptions is adequately disclosed in Note 15 to the accounts.	Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	Green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no non-trivial omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Confirmation requests from third parties**	• We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments, for investment balances, income and purchases and sales. • We have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding.
7.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investments, Contributions, Benefits and Member Data as set out on pages 10-11 above.

Officers have made us aware of the following matters related to internal control and we report them here for completeness.

	Assessment	Issue and risk	Conclusion
1	●	• During our audit, officers made us aware of a small number of transactions and balances relating to duplicate payments. The duplicate payments related to three different occasions and different circumstances, but highlight a potential risk of losses to the fund.	• In each case, the duplicate payments were identified by the Pension Fund as part of the reconciliation and review process, and all monies have been recovered. The finance team have reviewed the reasons for the overpayments and have strengthened controls in each area.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Misclassification and Disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	£3,360	Net Assets Statement – Equities and Other Investment Balances	Our testing of equities identified £3,360k that should be classed as Other Investment Balances and an amendment has been made to correct this presentation. Equities have been reduced by £3,360k and Other Investment balances increased by £3,360k. Amendments have also been made to the classification of this amount in a number of other disclosures within notes 13 and 14.
2	Disclosure	n/a	Note 13a	The description of investments with a value of £2.052bn has been amended to 'Other Unitised Investments' to more accurately describe the nature of the these investments.
3	Disclosure	n/a	Various	We have agreed a number of other minor changes to improve the overall presentation and disclosure in the financial statements.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	36,882	36,882
Agreed fee variation	2,180	2,180
Total audit fees	39,062	39,062

Fees for other services

Service	Fees £
Non audit related services	
Services relating to the appointment of a Chair of the Local Pensions Board	1,418

Independence and ethics

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 Financial Reporting Council's Ethical Standards and therefore 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.

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have audited the pension fund financial statements of Wirral Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Wirral Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Financial Services and the auditor

As explained more fully in the Statement of the Head of Financial Services' Responsibilities, the Head of Financial Services is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Financial Services and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword and financial report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and benefits after the end of the fund year; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and financial report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Fiona Blatcher
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

X September 2015

Independent auditor's statement to the members of Wirral Council on the pension fund financial statements included in the pension fund annual report

We have examined the pension fund financial statements of Wirral Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Wirral Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and the auditor
As explained more fully in the Statement of the Section 151 Officer Responsibilities, the Section 151 Officer is responsible for the preparation of the Statement of Accounts of Wirral Council, which include the pension fund financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Wirral Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Chairs Introduction, Management Report, Membership Statistics, Investment report, Financial Performance and The Consulting Actuary 's Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion
In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Wirral Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP
Chartered Accountants
4 Hardman Square
Manchester
M3 3EB

X September 2015

Grant Thornton

grant-thornton.co.uk

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WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**STATEMENT OF ACCOUNTS 2014/15 – MERSEYSIDE PENSION FUND**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**ACTING SECTION 151 OFFICER**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2014/15 and to respond to the Audit Findings Report from Grant Thornton.

1.2 Subject to outstanding work, Grant Thornton has indicated there will be an unqualified opinion and there are no material adjustments and no recommendations.

1.3 Grant Thornton's report expresses a positive outcome from their audit of the accounts and refers to the outcome, in the context of MPF Officers working on a number of key projects throughout the year, as a significant achievement.

2.0 BACKGROUND AND KEY ISSUES

2.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2015 in accordance with prescribed guidance.

2.2 Grant Thornton is close to completion of its audit of the accounts and the Audit Findings Report is on this agenda. They may provide a verbal update at the meeting on the report and officers will respond if necessary.

2.3 Officers have agreed to all of the suggested adjustments to the accounts and disclosures.

2.4 There was one mis-classification of £3.3 million, which was categorised as equities instead of other investment balances. This has no effect on the net assets of the Fund as at 31 March 2015.

2.5 All suggested disclosure changes have been amended.

2.6 Within the internal controls section of the report, Grant Thornton has reported on three duplicate payments. These payments were identified by the

accounts team at the Fund, as part of their regular routine reconciliation procedures. All monies have been recovered and preventative controls examined and strengthened where necessary.

2.7 I have prepared a Letter of Representation on behalf of the Committee which gives assurances to the Auditor on various aspects relating to the Pension Fund.

2.8 The Audit Opinion will be issued following final completion of the audit, consideration of the Audit Findings Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee. Once approved, Grant Thornton has indicated that they will again issue an unqualified opinion, and state that the accounts present fairly the financial position of Merseyside Pension Fund as at 31 March 2015. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2015.

3.0 RELEVANT RISKS

3.1 Not relevant for this report.

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 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly 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 no implications 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?

(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 no planning or community safety implications arising from this report.

13.0 RECOMMENDATION/S

13.1 That Pensions Committee approves the audited Statement of Accounts for 2014/15, considers the amendments to the draft accounts and the draft Audit Findings Report and the Letter of Representation.

13.2 That Pensions Committee refers the recommendations to the Audit and Risk Management Committee.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government, the Auditor reports its findings on the audit of the Pension Fund Financial Statements to those charged with governance.

14.2 As the Pension Fund receives a separate Audit Findings Report, this report will first be considered by Pensions Committee, and then by Audit and Risk Management Committee.

REPORT AUTHOR: Donna Smith
Group Accountant
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

1. The statement of accounts forms part of the draft annual report which is a separate item on the agenda at this Committee meeting.

BACKGROUND PAPERS/REFERENCE MATERIAL

The Statement of Accounts plus relevant working papers and the Audit Findings Report from Grant Thornton were used in the production of this report.

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
PENSIONS COMMITTEE	15 SEPTEMBER 2014
AUDIT AND RISK MANAGEMENT COMMITTEE	17 SEPTEMBER 2014
PENSIONS COMMITTEE	16 SEPTEMBER 2013
AUDIT AND RISK MANAGEMENT COMMITTEE	18 SEPTEMBER 2013
PENSIONS COMMITTEE	18 SEPTEMBER 2012
AUDIT AND RISK MANAGEMENT COMMITTEE	19 SEPTEMBER 2012

WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**DRAFT ANNUAL REPORT**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the draft Annual Report of Merseyside Pension Fund for 2014/15.

1.2 A copy of the draft Annual Report will be available for Members at the meeting.

2.0 BACKGROUND AND KEY ISSUES

2.1 The LGPS regulations require the Pension Fund Annual Report to contain the Fund Accounts and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.

2.2 International Standards on Auditing (UK&I) 720 requires that auditors read any information published with the accounts. It also states that the auditor should not issue an opinion until that other information is published.

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 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 Members approve the draft Annual Report of Merseyside Pension Fund for publication.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Regulation 34 of the Local Government Pension Scheme (LGPS) Administration Regulations requires local authorities to produce an Annual Report for the year to 31 March by 1 December of that year.

REPORT AUTHOR: **DONNA SMITH**
Group Accountant
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Fund's draft annual report is brought annually to this Committee.	

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WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of a number of policies announced in the 2015 Summer Budget and the associated impact on the LGPS and its members.

1.2 It also raises awareness that the Government has recently issued consultations on the potential reform of pension tax relief and a cap on public sector staff exit payments.

1.3 The report also includes a legal opinion obtained by the Local Government Association in relation to the provision of Council funded pensions to Elected Members.

2.0 BACKGROUND AND KEY ISSUES

2015 Summer Budget

2.1 Despite previous fundamental changes already effective from 6 April 2015, introducing greater flexibilities for accessing pension savings from defined contribution arrangements, the Chancellor, in delivering the summer budget on 8 July, committed to deliver further radical reform to the pensions industry.

The main policies with potential impacts for the LGPS are as follows:

LGPS and pooled investments

2.2 Following the previous Government consultations on possible reform to the LGPS's investment structures in England and Wales, the government has confirmed its plans to work with administering authorities to pool investments

to significantly cut costs. It intends to invite proposals to meet “common criteria for delivering savings” while maintaining overall investment performance.

2.3 A consultation will be published later this year outlining the detailed criteria, including “backstop legislation” that would effectively force authorities to pool investments if they do not present “sufficiently ambitious” proposals.

2.4 Joanne Segars, Chief Executive of the National Association of Pension Funds, believes pooled investments will be most effective when they arise out of the “natural collaboration between funds, rather than where funds are forced to invest together”.

2.5 Whilst waiting for the consultation to be published, the Fund has met with a number of neighbouring large funds to initiate plans and to discuss mechanisms for reducing fees, greater internal investment and more effective investment structures utilising economies of scale.

The prime objective is to focus on natural collaboration with the aim to reduce deficits which will systematically reduce costs with the added efficiencies of trimming administration costs.

Lifetime Allowance Reduction (LTA) to £1 Million

2.6 In last year’s budget, the Chancellor announced that, from April 2016, the LTA would reduce from £1.25 million to £1 million. The chancellor took the opportunity to confirm this change following the General Election. He also confirmed that the LTA would rise in line with CPI from 6 April 2018.

2.7 Transitional protection will be available for individuals with pension rights valued over £1 million. The details of how the protections will work have not been published.

Tapered annual allowance

2.8 The Government also announced measures to limit the annual allowance of high earners. This change will mean that, for individuals with incomes over £150,000, the annual allowance will be reduced by £1 for every £2 of income earned over £150,000, including the value of the pension accrued over the pension input period.

2.9 The annual allowance will be tapered to a maximum reduction of £30,000 (therefore meaning that those with an income of more than £210,000 would

not lose any further annual allowance) and the taper will not apply where the individual has 'threshold income' income of lower than £110,000.

Alignment of pension input periods

2.10 The Government has announced transitional arrangements for the 2015/16 tax year that will mean that all future pension input periods will end in line with the tax year i.e. on 5th April of any given year. The transitional arrangements mean that in the LGPS, in the period from 1st April 2015 to 5th April 2016, there will be two pension input periods:

- One for the period from 1st April 2015 to 8th July 2015, and
- Another for the period from 9th July 2015 to 5th April 2016.

Going forward, the pension input period in the LGPS will be 6th April to 5th April in any given year

2.11 In general, the approach is that an individual can save (without an annual allowance charge) £80,000 in the current tax year, but no more than £40,000 after 8 July. Overall this approach to the transition is generous and may allow greater saving for members than originally anticipated.

Tax relief Green Paper

2.12 The surprise announcement in the Budget was the launch of a consultation on whether there is a case for reforming pension tax relief, with the stated aim of encouraging more people to save.

Whilst the chancellor confirmed that the Government were taking care not to pre-judge the answer, one of the options being considered is that pensions could be taxed like ISAs (payments in from taxed income, investment income exempt from tax and payments out exempt from tax).

2.13 At this stage it contains policy proposals for debate without any commitment to action. The deadline for submitting responses is 30 September 2015 and the Fund's draft response is presented in a separate paper within the committee agenda.

HMT consultation on a proposed exit cap of £95,000

2.14 On Friday 31 July 2015, HMT issued a consultation on a Public Sector Exit Payment Cap, which can be accessed from the following link:

https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap

The consultation closes on 27 August 2015 and seeks views on a proposal to legislate for a £95,000 cap on the total value of payments made to an individual in relation to his or her exit from public sector employment, including any Pension Fund shortfall.

2.15 The Fund has raised awareness amongst its constituent employers of this consultation to provide them with the opportunity to respond directly to the government or to provide any views to the LGA, who have committed to prepare a joint response on behalf of the Local Government sector. A copy of the LGA response is attached as Appendix One to the report.

2.16 To create the desired legislation, the government intends to introduce clauses to the Enterprise Bill. If the proposals are implemented, then there would need to be a change to the LGPS Regulations to deal with cases where provision of immediate unreduced pension benefits would breach the £95,000 limit.

Legal opinion on the powers of Councils to pay pensions to Elected Members

2.17 The LGPC has recently obtained a legal opinion to clarify whether a council in England can make contributions to an alternative pension provision for its elected members – this follows the changes brought about by the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, which ended the power for councils in England to offer their elected members membership of the LGPS.

2.18 It is Eversheds' view that, whilst councils have a general power of competence under Section 1 of the Localism Act 2011, such a power does not permit a council to do anything which it has been specifically prohibited from doing.

The changes brought about by the above LGPS regulations, which were explicit in ending the option for councils in England to provide pension provision to elected members, would mean the general power of competence could not be used to make contributions to an alternative pension provision.

2.19 The advice also considers that auto-enrolment legislation would not apply to councillors as they are office holders and would not meet the definition of 'workers' under the Pensions Act 2008.

3.0 RELEVANT RISKS

3.1 There is a risk that if the Government introduces a rigid prescription in the management of investments, performance may be impaired. The particular circumstances of each fund are reflected in its asset allocation and investment policy, and pooling of investments may militate against optimal decision-making by funds.

Such compulsion could have a detrimental impact on funds that are delivering good risk adjusted returns.

3.2 There is a strong consensus within the industry that constant changes to the tax treatment of pensions will result in further reducing members' confidence in pension saving for retirement.

As such it is imperative that reform of the tax system must fall within the principle of 'simplicity and stability' to keep the membership both engaged and incentivised towards pension saving.

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 are none arising from this report

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

8.1 The changes to the lifetime and annual allowance will impact on Fund officer time and other resources, as the reduced allowances will impact on a greater number of members.

Although the lifetime allowance only affects a small proportion of the overall scheme membership, the complexity of any inbuilt protections necessitate an in-depth assessment of a member's pension benefits and the provision of a

considerable amount of information to ensure the member can seek appropriate, informed independent tax advice.

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?

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
Principle Pension Officer
Telephone (0151) 242 1333
Email yvonnecaddock@wirral.gov.uk

APPENDIX

LGA response to HMT Consultation on Proposed Exit Cap

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

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CAP ON PUBLIC SECTOR EXIT PAYMENTS
LOCAL GOVERNMENT ASSOCIATION RESPONSE

This response is submitted by the Local Government Association (the LGA), on behalf of local authorities. The LGA is the national voice of local government. We work with councils to support, promote and improve local government. The LGA covers every part of England and Wales and includes county and district councils, metropolitan and unitary councils, London boroughs, Welsh unitary councils (via the Welsh LGA), and fire and national park authorities. The Workforce Team of the LGA offers advice on employment issues and represents local government employer interests to central government, government agencies, trades unions and European institutions.

Our response is based on views expressed by authorities following a consultation that we carried out with councils and fire authorities. This incorporated views of authorities and the various Local Government Pension Scheme funds/fund managers.

Where possible we have answered the specific questions asked in the consultation. However, we feel that there are many other issues that the questions do not address, but which need to be raised and taken account of in the progression of this policy if it is not to cause significant difficulties for employers. In addition some of those points and responses are interlinked and therefore we have organised our response around themes some of which incorporate a number of the consultation questions. This means that not all of the questions have been answered, and when answered not in numerical order.

This proposal raises a number of very complex legal and technical issues in relation to employment and pensions. We have dealt with employment law and general HR management issues first with appropriate reference to related pensions issues but have then dealt with those pensions issues in more detail in a separate section.

Any queries regarding this response should be sent to simon.pannell@local.gov.uk or philip.bundy@local.gov.uk.

The effectiveness of the consultation

However, firstly, we wish to raise our significant concerns about the effectiveness of the government's consultation exercise in this instance.

Issuing a consultation on a policy proposal which has wide-ranging impacts on employers of a substantial part of the economy's workforce and entails analysis of the very complex interplay of various legislative and contractual provisions with less than 28 days to submit a response and, furthermore, in August, appears to show a lack of due care in relation to the development of this policy. It would also appear to be a failure to adhere to the government's own principles in relation to consultation exercises, identified in the consultation paper which are available at:
https://www.gov.uk/government/publications/consultation-principles-guidance

Of particular relevance is the following provision:

"Timeframes for consultation should be proportionate and realistic to allow stakeholders sufficient time to provide a considered response and where the consultation spans all or part of a holiday period policy makers should consider what if any impact there may be and take appropriate mitigating action."

We do not consider that the timeframe for this consultation was in any way proportionate or realistic, both due to the very short period allowed for responses and the timing of it, with all the period allowed falling within a holiday period (as defined by the consultation principles). We wish to be informed of the policy maker's considerations on this matter and of the mitigating action that is to be taken.

As you will see from our response below, the consultation exercise that we carried out raised a substantial number of concerns, even in the inadequate period that was allowed. We hope that it is recognised that it is important that there is full engagement with us over these issues and others that will inevitably be raised in the coming weeks, so that they can be given the consideration necessary to ensure that this policy does not lead to negative consequences for the sector.

PART 1: EMPLOYMENT LAW AND HR MANAGEMENT ISSUES

The payments that may be included in the cap

Question 3: Do you agree that the payments listed above should be subject to a cap on exit payments under the terms set out above? If you believe certain payments types should be excluded please provide rationale and examples.

Local authorities have a number of concerns with the payments the government intends to include in the cap.

Annual Leave

For example, including payments for untaken annual leave would seem inappropriate. This should really be seen as falling within the category which is excluded from the cap i.e. remuneration for normal ongoing activities that

are part of employment as if a person has not taken the proportionate amount of their annual leave, the payment effectively represents pay for work they have carried out. Additionally, there is also a legal requirement to pay for untaken annual leave provided by the Working Time Directive and the Working Time Regulations. It is hard to see how complying with this requirement could be said to be disproportionate. In most cases employees who are leaving will be told to take their accrued leave. However, there will be circumstances where this is not desirable. To include such payments in the cap could lead to employees taking their accrued leave in circumstances where the employer would not wish them to do so, due to the impact that it would have on the delivery of the service. This could particularly be the case where employees are leaving and have a limited time to handover to those staff remaining.

Further, in respect of the proposal to include extra leave, although it is probably rare for an employer to offer such extra paid annual leave, this may arise where the employer is being flexible in an attempt to assist the employee with finding another job, for example providing leave to attend an interview. It would seem inappropriate to potentially restrict such a practice as the earlier an employee finds alternative employment the better for both the individual and the state.

Notice pay

Including pay in lieu of notice could also cause problems for employers. Employees are entitled to a period of notice under the terms of their contract or as set out in the Employment Rights Act 1996. Payments in lieu would not be used in local government without good reason. Including the payment in the cap could lead to further problems in relation to potential litigation if the individual concerned effectively receives a reduced compensation payment as a result of being paid damages for breach of contract.

“Special severance payments”

The inclusion of “special severance payments” in the cap could also cause problems for employers as it would greatly affect the willingness of an individual to settle a potential claim or a tribunal claim.

It appears from the consultation document that aside from serious ill health, injury and death compensation, an employee would only be able to receive “special severance” type compensation outside the scope of the cap “following litigation” for breach of contract or unfair dismissal. The true intention around this area needs clarifying.

Precisely when will the proposed exclusion of compensation following litigation apply? Will this be when litigation is pursued to a final judicial decision in an employment tribunal or court, or will this exclusion also incorporate settlement agreements reached following the instigation of litigation, or indeed when there are prospects for litigation.

Further, aside from unfair dismissal, other statutory claims could arise from an employee's exit, such as one for sex discrimination. Therefore it is our view that compensation for such claims should also be outside the scope of the cap.

In any event it is worth noting that in local government, settlement agreements would usually only be used in appropriate circumstances, in accordance with CIPFA, or auditor guidance, generally with the aim of reducing costs to taxpayers by avoiding expensive litigation where there may be uncertain prospects of success. However, the inclusion of special severance payments could mean that an individual will refuse to settle what is likely to be a complex tribunal claim, and so this part of the proposal could effectively increase costs and administrative burdens on councils (although we recognise that the proposal includes a provision whereby the full council (or a meeting of members in fire and rescue authorities) could waive the cap in exceptional circumstances.

Redundancy pay

The consultation paper talks about redundancy pay and it is not clear whether within the policy there is to be a distinction drawn between statutory redundancy pay and additional discretionary or contractual redundancy pay.

There is an obvious argument that statutory redundancy pay is different to any additional redundancy or severance pay granted.

Prioritisation and deemed order of payments

Once the government finally decides on the payments that could be in scope, one of the issues which is also raised in our response to question 11 is the question of what will be the order of priority of payments to be scheduled before the cap is applied, and who will decide that order? Will it be set out in legislation with all of the consequential amendments made to the Employment Rights Act 1996 and the various pensions regulations to qualify the rights to payments? Will it be an employer discretion to apply the cap where it sees fit? Or will it be an employee choice under which, for example, they could choose to forego part of their redundancy payment rather than their pension benefits, or vice versa? Further, could they chose to have the excess deducted from their pension only and not from their LGPS tax-free lump sum? This would involve additional bureaucracy in terms of preparing a wide range of estimates to enable them to make such choices.

The identification of priorities may also be important for the purposes of identifying tax liability for the severance payment. For example, if the cap is breached by £10,000 and the redundancy payment is £40,000, will the £10,000 be deducted from the £30-40,000 end of the redundancy payment (leaving £30,000 RP tax free) or from the £0-10,000 end of the payment meaning that part of the payment (the £30-40,000 end) would be taxable?

Question 1: What other forms of exit costs do you think are relevant in this context?

None were identified.

Question 2: Do you agree that the government should introduce a cap on the value of public sector exit payments on the basis set out above?

The majority of the authorities that responded to us expressed concerns with the introduction of the cap, particularly in the light of the payments to be included in it, although many recognise the overall aim of offering value to money to the taxpayer. As a point of principle several authorities also felt that the national application of such a cap conflicts with the policy of devolution of responsibilities to local councils who are run by democratically elected councillors and are able to take their own decisions based on financial circumstances and the business case.

Notwithstanding the conflict with devolution principles, authorities have questioned the necessity of applying the cap to local government, which already operates within a transparent framework including published policies and whereby an exit payment of over £100,000 has to be approved by full council. It could be that further assessment of the impact of such policies in local government be undertaken in local government before application of additional mandatory rules are necessary.

Authorities already manage exit payments very tightly, with the number of instances of payments exceeding the proposed £95,000 cap being low, particularly when compared with other parts of the public sector taking into account the number of employees employed.

Furthermore, the years referred to as evidence for the policy are those where major cuts to funding had taken place, resulting in major restructuring of authorities, including senior management teams, which were more likely to be made up of long-serving and older employees. Such decisions were made to create efficiency savings, i.e. the costs of termination will be fully recovered in longer term savings in order to balance budgets.

Question 4: Are there further payments that the government should include?

None were identified.

Question 5: Do you agree that a cap on exit payments should be set at £95,000? If you think an alternative level would be more appropriate, please provide evidence and analysis to support your proposal.

The majority of councils offered no support for setting the cap at this level if all of the payments are included as proposed, particularly strain on fund costs.

The consultation document asks for evidence and analysis to support alternative proposals, however, local authorities are not in a position to supply such data, particularly in the very short timescales involved. There is little evidence in the consultation document for setting the cap at £95,000 without taking any other factors into account such as efficiency savings achieved. It is accepted it would fit with statements made in relation to headlines around “six figure pay-outs” although such headlines usually fail to have the in depth analysis which the government requires into the reasons behind such payments.

The consensus among the respondents to our consultation exercise felt that the policy as drafted with a cap set at £95,000, which includes strain on fund costs, unjustifiably penalises older, longer serving, junior to middle ranking employees in local authorities. Most respondents felt that it was not the intention of the government to target such employees in this way and that this policy as it stands misses the mark of what many felt was believed to be the target of high earners. One authority suggested that this would be more fairly achieved if strain on fund costs were removed and the cap could potentially be reduced.

This is particularly the case as those employees who will more likely bear the brunt of this policy will be penalised due to having been long-serving members of the Local Government Pension Scheme. The factors that are taken into account in calculating redundancy payments in local government are in practice relatively modest and result in reasonable redundancy payments. Some authorities pay only statutory redundancy pay, without enhancing the number of weeks’ pay. The reason why this policy would bite would be, in the vast majority of cases, due to the fact that an employee had been a long-serving employee and contributor to the LGPS. It is the benefits that they (and their employer through the provisions of the scheme) have funded that would result in them losing out as a result of this policy.

The consensus among authorities was that this policy, particularly including the strain on fund cost in the cap, would erode the ability of employers to manage their workforce reduction programmes, which are continuing, in an efficient and effective way. This will be exacerbated by the potential for the change in the tax treatment of termination payments and the increase in pension age, which will increase strain on fund costs.

The impact of this policy will be felt in a number of ways. There is likely to be an increase in the number of employees who are currently eligible for early retirement seeking to leave now under voluntary redundancy arrangements, prior to introduction of the cap. This could place employers in a difficult position in that this could result in a drain of knowledge and talent, but on the other hand to refuse requests for voluntary redundancy could lead to further compulsory redundancies.

In the future, should the policy be implemented as it stands, there will be fewer volunteers for redundancy, bearing in mind that even if the cap might not actually ‘bite’, many employees would not be able to establish whether the

impact of the strain on fund pension payment would mean the cap would or would not ‘bite’. This will have a negative effect on the efficacy of restructuring programmes. Instead of receiving requests from volunteers to leave, employers will have to make compulsory redundancies involving full consultation and notice periods.. This may well mean that any savings in a cap will be eroded, if not eliminated. Also, although allowing an employee who has an entitlement to an unreduced pension to volunteer for redundancy, as opposed to compulsorily dismissing an employee who doesn’t, may have marginal financial implications, the positive effect of being able to reduce the number of compulsory redundancies on morale and service delivery should not be overlooked.

There are issues about how can such a cap be managed in practice, across the wider public sector, particularly given the varying degrees of contractual and statutory entitlements to redundancy payments and pension benefits. There needs to be careful consideration of this issue, if for example, the policy is not to result in additional costs to public sector employers in terms of fighting claims for breach of contract.

Whatever the level of any cap, it would need to be subject to an appropriate indexing mechanism to maintain its current value otherwise the policy would begin to impact on more lower earning long-serving employees.

The policy could also have further impact on the ability to recruit and retain skills and knowledge in the public sector. Authorities are already seeing difficulties recruiting in professions such as IT and legal, as they are failing to compete with the private sector. These difficulties can be more acute in London and the South East.

Scope

Question 8: Do you agree that the government has established the correct scope for the implementation of this policy?

The exclusion of publicly funded bodies on the basis that they are operating on a commercial basis begs the question of if these proposals are bad for business then will they not be bad for the public sector which operates on an increasingly commercial footing within a complex labour market? The government’s proposals to exclude banks and other publicly funded bodies where some of the largest exit payments are made cannot be supported.

Also, as with the government’s proposal to implement a system of recovery of exit payments, if a public sector worker returns to the same part of the public sector, the legislation will have to be clear as to not only which bodies it does not apply to but absolutely explicit as to the bodies it does apply to and to have a maintained list of bodies. This would have to include all the companies that local authorities have set up, if they are to be included.

Ex-public sector employees working in the private sector

Question 9: How do you think the government should approach the question of employees who are subject to different capping and recovery provisions under TUPE rules following a transfer to (or from) the private sector and whether there should be consistency with public sector employees in general?

If implementing rules in relation to staff transferred to and from the private sector it will be necessary for great clarity as to how they would apply, particularly whether there would be any time limits put in place over which the policy would apply.

It seems logical that an employee transferred into the public sector should be covered by the rules as they work in the public sector whose money is being paid out as a termination payment. Although of course given the impact of TUPE it may not be as simple as that.

Employees who work in the private sector, but on contracts delivering public services procured and paid for out of public money likewise have their wages paid and termination payments paid indirectly from the public purse. Arguably based on a public money argument the same rules could and should apply to all staff on such contracts, not merely those who may have transferred from the public sector. However, it would be difficult to see how the public purse would benefit and money saved put to public use as it would be more likely to simply increase private profits made out of public money unless caps could be placed on profits to be made on such contracts.

Even if caps could be applied to staff transferred out, it must be acknowledged that structures and businesses change. Someone transferred out of public sector employment might spend very little time working on the previous public sector contract and move onto another role within the private sector employer so how would a cap apply to them?

Waiver

Question 10: Do you agree with the proposed approach for waivers to the cap on exit payments?

Although the introduction of a waiver seems in some respects to run counter to the objective of the policy, the ability to apply the waiver would provide important flexibility.

In local government, payments made in the circumstances envisaged in the consultation document have for some considerable time been made in accordance with government guidelines in an open and transparent way. Although there is currently no explicit cap, authorities in maintaining their discretionary policies must have regard to the extent to which the exercise of their discretionary powers (in accordance with the policy), unless properly limited, could lead to a serious loss of confidence in the public service. They must also be satisfied that the policy is workable, affordable and reasonable having regard to the foreseeable costs.

Alternatively, payments have been made as legitimate settlements in respect of litigation against the authority, taking into account an assessment of the prospects of success and the likely level of compensation payable. It is important that the ability to make such payments is retained. In this context though matters of confidentiality are often important and one authority has suggested that in some cases it might be appropriate to allow delegation of discussion of such matters from Full Council to a smaller committee.

As described in the proposal, care would have to be taken with drafting any such waiver policy as by definition foreseeing the exceptional circumstances in which a waiver may be necessary may be problematic. It is recommended that legislative provisions regarding the waiver are not set out in such a way as to make use of it effectively impossible.

In local government there is a further complication in relation to school settings where the relevant governing body has powers to take such decisions. The legislation will have to clarify how a waiver applies in such settings.

Other issues

Question 11: Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

There are a number of additional specific points which need to be considered, and clarified or addresses in the formulation of the policy.

a. Date of implementation

Determining the implementation date is obviously important in order to allow employers to plan and prepare for the new rules, but it will also be essential to co-ordinate the introduction of legislation with consequential amendments to other legislation such as the Employment Rights Act 1996 and the various public sector pensions regulations.

b. Transitional provisions

Local authorities are continually restructuring and striving for efficiency savings. These programmes vary in complexity. Some occur quickly and some are implemented over a longer time period. Authorities will be making decisions and striking deals with employees now which could ultimately be affected by the new policy. The legislation introducing the policy will have to deal with such cases and therefore will need to include specific transitional provisions. It would seem only fair to establish that deals made prior to the implementation of the policy remain valid and not subject to the cap, otherwise this could have a major impact on the ability to conduct restructures while there remains uncertainty.

c. The prioritisation/deemed order of payments

We have mentioned this previously and it is particularly important in relation to the liability to make statutory payments and to satisfy contractual entitlements, and the complexities created if there is to be any incorporation of pension strain payments into the cap. It may also impact on the ability to identify tax liability on payments. In terms of this, will the order of priority be:

(i) set out in legislation?
(ii) be established as an employer discretion?
(iii) be established as an employee discretion?

d. Clarification as to the exact application of the cap to employees

There are a variety of employment contracts in the public sector involving different levels of hours and status. Indeed many employees have multiple contracts; that is more than one concurrent employment contract with either the same or with different public sector employers. However, there will need to be clarification as to whether:

(i) the policy applies per employee, contract or per employer; and
(ii) in the case of TUPE transferred employees whether it is per employer (if relevant) or per funder, as under Fair Deal arrangements the transferor employer may fund any strain on fund pension exit costs.

Such clarification will by its nature indicate whether exits will be dealt with as one off incidents or whether there may be any link to future exit payments arising from termination of another contract (whether that be in existence at the time of the termination of the first contract or where the employee subsequently finds new employment).

Please note, as it appears that the policy is to be applied across the board regardless of salary level, it is assumed that it applies equally to part-timers and not on a pro-rata basis.

e. Clarification as to relationship to any other policy

The government is also introducing a policy on the reclaiming of exit payments where high earners return to the same part of the public sector. There will need to be clarity as to any relationship between the policies. For example, how would the cap work for an employee who has had an exit payment capped but who then finds new employment and has to repay a significant proportion of the payment?

f. Discrimination

As the government recognises this policy by its very nature has the potential to have discriminatory effects and these must be considered

much more closely as employers cannot be put in a position where they are fighting costly discrimination claims as a result of government policy.

PART 2: PUBLIC SECTOR PENSIONS ISSUES

This pensions part of the LGA's response does not refer directly to the questions posed. In summary the response covers:

1. The clarification required in order to ensure primary and secondary legislative changes comply with policy objectives.

2. The necessary balance between primary legislation for those elements covering all pension schemes and secondary legislation to amend individual schemes in an appropriate and workable manner.

3. The scope of changes necessary at the scheme level.

This response covers the major schemes operated by Local Government including the Local Government Pension Scheme (LGPS), Teachers Pension Scheme (TPS) and Firefighters Pension Scheme (FPS).

Clarification of policy

The following areas of policy are not absolutely clear in the consultation document and in our view will require confirmation in order to ensure an effective implementation of policy objectives.

1. That the policy applies only to public sector employers within schemes (for example that non-public sector employers in the LGPS and TPS will not be subject to the cap).

2. Whether the policy is to be applied based on who the actual employer is at the time of the event or the employer on which the exit payment cost falls (e.g. where a contractor may pass such costs back to the contracting body, such as a local authority.

3. What if any exit payments may be given up to avoid, as far as is possible, any reduction to pension benefits (for example TPS allows the choice of redundancy or strain cost will this be allowed in LGPS).

4. Whether pension scheme members (aged 55 or over) will be allowed the choice of:

    a) taking an immediate actuarially reduced pension on redundancy (to bring the cost within the cap), or

    b) taking an unreduced pension from a later date (when the strain cost equals the cap figure)?

5. Whether events other than exit which result in a pension strain cost are caught by the cap.

6. Clarification of the interaction between the cap and the annual allowance scheme pays option.

Balance of legislation

In setting out our response on legislation the following assumptions have been made with regard to the above policy questions:

- The cap applies at employer not scheme level

- The cap applies in respect of the employer meeting the strain cost (who may not be the employer with whom the contract of employment sits)

- Statutory exit payments may not be given up in lieu of strain cost

- Members may choose to defer or transfer out their benefits on redundancy

- All events resulting in an employer strain cost are caught by the cap

Primary legislation should contain enough detail to ensure the general policy objective is met while providing enough flexibility for scheme regulations to deal with a number of different scenarios, in particular the primary legislation should:

1. Define that the cap applies only to 'public sector' employers within schemes and list or refer to a list of those employers.

2. Determine that the employer for the purposes of the cap is the one which meets the strain cost.

3. List the statutory exit payments that may not be given up in order to maximise the amount available for pension strain cost.

4. Define that the cap applies to all events resulting in a pension strain cost.

If number 4 is not included then there are a number of scenarios that could result in the cap being avoided where there is a strain cost before or after leaving as a result of flexible retirement, additional pension being granted by the employer or deferred pension being brought into payment with any actuarial reduction waived in whole or in part.

Other issues could then be dealt with by changes to schemes via secondary legislation.

Changes to schemes

Secondary legislation would be required to deal with the following issues in order to effectively implement the policy objectives:

1. The Local Government Pension Scheme (LGPS) regulations would need to differentiate between England and Wales as the consultation refers only to English employers while the scheme regulations cover both countries.

2. An obligation on Scheme Managers in all schemes to calculate the correct level of the cap available for pension strain would need to be included. This obligation would set out the options available to the employer/member with regard to any other payments which may be forgone in order to maximise the strain cost.

3. In calculating 2 above the regulations would need to oblige Scheme Managers to take into account strain payments from concurrent or previous employments (and in the LGPS across more than one fund).

4. Where the cap applies to multiple employments (For LGPS both within and across funds) scheme regulations will need to determine how the cap is shared between the employments.

5. In order to provide an equitable outcome for scheme members regulations will need to prescribe the methodology used to calculate strain costs for the purposes of the cap. For the LGPS a methodology would be needed for use by all funds while for the Fire Fighters Pension Scheme (FPS) a methodology would be needed to determine the capital value of the annual strain cost.

6. Regulations would need to determine which other events (apart from redundancy) resulting in a strain cost would be caught by the cap: for example LGPS regulations would need to cover:

    a. flexible retirement
    b. augmentation of pension
    c. shared cost Employer discretion to 'turn on' the 85 rule
    d. early payment of benefits on compassionate grounds (with no actuarial reduction)
    e. early payment of benefits with any actuarial reduction waived by the employer (in whole or in part).

    Other schemes will have similar events which will also need to be brought inside the cap if avoidance of the policy is to be prevented.

7. Regulations would need to include a methodology for dealing with the interaction of the cap and the annual allowance scheme pays provision as a result of breaching HMRC’s annual allowance.

8. Amendments would be required to remove the mandatory taking of benefits on redundancy.

Sarah Messenger
Head of Workforce
Local Government Association

27 August 2015

WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	GOVERNMENT CONSULTATION ON PENSION TAXATION
WARD/S AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the government's consultation on reforming pension tax relief and to request approval to submit the draft response prepared on behalf of Wirral Borough Council to HM Treasury.

2.0 BACKGROUND AND KEY ISSUES

Strengthening the Incentive to Save: A Consultation on Pensions Tax ` Relief

Information and Analysis

2.1 The Chancellor has launched a Green Paper consultation on 7 July 2015 seeking views on the possibility of a radical change from the current tax regime. The stated objective is to encourage more people to save and to take responsibility for making sufficient contributions to their pension enabling them to meet their aspirations in retirement.

The document can be accessed from the following link: https://www.gov.uk/government/consultations/strengthening-the- -to-save-a-consultation-on-pensions-tax-relief

2.2 The consultation sets out the context for potential reform and asks for responses to the following set of wide ranging questions:-

- To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?

- Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?

- Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?

- Would an alternative system allow individuals to plan better for how they use their savings in retirement?

- Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?

- What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment? How could these best be overcome?

- How should employer pension contributions be treated under any reform of pensions tax relief?

- How can the government make sure that any reform of pensions tax relief is sustainable for the future?

2.3 In his Budget speech the Chancellor, when referring to the Green Paper, said:

"Pensions could be taxed like ISAs. You pay in from taxed income – and it's tax free when you take it out. And in-between it receives a top-up from the government. This idea, and others like it, needs careful and public consideration before we take any steps."

2.4 In view of the Chancellor's comment, a potential outcome from this consultation might be that tax relief would no longer be given at the point employee pension contributions are deducted. In return, there is the suggestion that when pension benefits become payable they would attract less or no tax.

2.5 In essence the current system could be reversed to one where:

- Payments in are from taxed income
- Investment income is exempt from tax and
- Payments out are exempt from tax

2.6 The Appendices to this report include a draft response which must be submitted by 30 September 2015 and quotes from around the industry used to inform the response.

3.0 RELEVANT RISKS

3.1 The potential removal of tax relieved contributions will lead to further reductions to a member's net pay in addition to the reductions resulting from the ending of contracting out increasing financial strain and present a significant risk of mass opts outs. This will place further cash flow pressures on the scheme and affect the investment strategy leading to a move from return seeking into defensive assets, culminating in increased employer contributions with a direct adverse impact on local taxpayers.

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 are none arising from this report

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

8.1 There are none arising 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?

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 make any required amendments to the content of the report before approving the draft response for submission to HM Treasury.

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 to present an informed submission to the statutory consultation with the outcome of the government policies having a direct impact on the LGPS

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

APPENDICES
Appendix 1 - Consultation Response On Tax Relief
Appendix2 - Thoughts From Around The Industry
BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

Consultation on Pensions Tax Relief
Strengthening the Incentive to Save

I refer to the above mentioned consultation document issued to coincide with the summer Budget 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).

Merseyside Pension Fund, which is part of the Local Government Pension Scheme (LGPS), is the 5th largest of the 89 funds with assets of £6bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities and over 150 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 125,000 active, deferred and pensioner members.

The Council concurs with many of the findings within the consultation paper regarding the decline of DB schemes and the benefits of auto-enrolment, but firmly believes that changes to the tax relief regime would be inconsistent with the primary objective to incentivise people to make adequate financial provision for retirement. We also strongly believe that any further change simultaneous to the fundamental changes around 'freedom and choice', the end of contracting-out and the limiting of tax free pension allowances, would result in further complexity and confusion for pension savers as well as for administrators.

The responses to the questions posed are as follows:

1. **To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?**

   We agree with the opinion in paragraph 3.9 of the document that 'the current system is simple in principle' and we also feel that it is simple in practice. The issues concerning young people and 'lower income groups' failing to make adequate pension provision is not a consequence of perceived complexity in the system, but is largely as a result of an array of financial pressures. We would suggest that the optimum approach of encouraging these groups to save is to improve employment prospects and wages or to provide additional top-ups to pension plans. It would appear injudicious to make pension saving more expensive, by removing tax relief, at the time when people are young and/or of low income, with competing financial demands which will ultimately restrict pension savings.

2. **Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?**

   In support of the above comment we do not believe that changes to tax relief will result in a simpler system. The perceived complexity of the tax system is not the key obstacle to pension saving as personal circumstances and current financial pressures balanced against unknown future financial commitments is a major barrier to an individual's capacity to make sufficient pension savings.

   In order to strengthen the incentive to save, greater awareness of the value of tax relief should be promoted by expressing the amount of the tax relieved contributions on pension statements, and employer incentives should be widely communicated amongst employees. In addition it is necessary to restore peoples' confidence in the pension system by avoiding further radical change to allow a period of stability and greater understanding of the available pension products to nurture a culture of saving for retirement.

Indeed, if a single rate of tax relief was introduced which was set at a higher level than the basic rate of tax, we would see this as a potentially significant incentive for lower paid workers to make pension contributions and, thereby, encourage saving for their retirement. Provided it was not set substantially below the higher rate of tax relief (e.g. around 30%) it would be less likely to act as a disincentive to pension savings by higher rate tax payers.

3. Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?

The consultation paper states that current contribution levels to DC are insufficient to maintain an adequate standard of living in retirement. The evidence cited, however, is from 2013, when the new system of work based pension saving was in its infancy. It may be sagacious to wait until 2018 when auto-enrolment has been fully rolled out to assess the position. If savings remain at minimum levels a targeted communication campaign would educate workers as to the optimum level of contributions necessary to realise expected pension income .The move to TEE would be counterproductive and exacerbate pressures on real wages leading to a reduction in pension savings as opposed to the intended outcome of increased pension provision and personal responsibility to ensure financial independence in retirement.

Also, looking at the figures in Chart 2A, the gross cost of registered pension scheme tax relief peaked in 2011/12, and is now falling slowly, despite auto-enrolment. The revisions to the annual allowances and lifetime allowances along with the impending tapering provisions although complex will ameliorate the inherent imbalances in favour of higher and additional rate taxpayers within the tax relief system and control the excessive costs to the Exchequer .

The introduction of a single rate of tax relief may encourage lower earners to save unlike the current system which gives a greater incentive to higher earners.

The complete removal of tax relieved pension contributions particularly for low and medium earners will act as a significant disincentive to savings with the cost of future pension and care provision falling on future tax payers.

4. Would an alternative system allow individuals to plan better for how they use their savings in retirement?

This question suggests that individuals will have a better understanding of how they are going to live in retirement, if they do not have to take into account taxation of pension benefits. The current tax system requires an understanding of gross and net income and a continuation of a consistent tax system into retirement should not impede retirement planning.

However, it may benefit future financial planning by raising greater awareness that although the state pension is paid gross of tax, it is actually liable to income tax through the interaction with other earned pension income.

In light of the new flexibilities introduced under freedom and choice provisions, the current system where taxation applies as funds are withdrawn and taken as income or capital, enables tax to operate as a natural brake on an individual over-spending early in retirement, as people seek to reduce their tax bills. Removing this natural break could lead to individuals exhausting all pension assets earlier resulting in a poorer pensioner population, with greater reliance on welfare benefits than government expectations.

The proposal of an ISA-style pension would lead to many individuals likely to save in other vehicles rather than pensions, which would give them more freedom to access the money, but

means that less may be put aside for retirement as there is no incentive for people to lock away their savings.

In general, individuals prefer a current reward over the promise of a future one even if the overall benefit is no different in value which would suggest that less would be saved under an ISA-style system than the current system.

5. Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?

As the LGPS is a funded statutory scheme, we are specifically interested in DB pensions and the necessity to maintain scheme participation to avoid a rapid acceleration of the maturity of the membership. The abolition of contracting out in 2016 will have significant implications on members' affordability to contribute to the scheme with the potential removal of tax relieved contributions compounding the problem and increasing opt outs, putting further cash flow pressures on the scheme. This will affect investment strategies with a move away from return seeking into defensive assets potentially culminating in increased employer contributions and a direct adverse impact on local taxpayers.

There is no obvious rationale to treating DB and DC pensions differently for tax purposes (other than linking the life time allowance for DC arrangements to contributions rather than values to prevent penalising positive investment returns), as different treatment would lead to greater complexity and confusion specifically in circumstances where people move from DB to DC arrangements and vice versa during their working lives.

6. What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment? How could these best be overcome?

The change to a TEE system (Taxable Exempt Exempt) from an administrative perspective would increase operational costs as pension schemes would have to segregate 'old pensions' from 'new pensions' to ensure that only savings that benefited from up front tax relief get taxed when benefits become payable.

Perhaps, if there is to be a change to TEE, sustainability would be best served if the new regime only applied to new pensions being taken out from a certain date.

If individuals find the LGPS less attractive due to the removal of tax relief, they will opt out, then they will be reinstated every three years under auto-enrolment, and then they will opt out again. This will create further administration costs and utilise scarce resources at both employer and pension scheme level.

The option to introduce a single rate of tax relief is administratively more difficult to operate than awarding tax relief at an individual's marginal rate of income tax. It would be difficult to operate Net Pay Arrangements with a single rate of tax relief and would require employers to use alternate arrangements and incur costly changes to their payroll software.

7. How should employer pension contributions be treated under any reform of pensions tax relief?

Employers in the public sector acknowledge the value of providing quality pension schemes to avoid future reliance on welfare benefits and as pay is generally lower than in the private sector, the provision of a pension scheme is recognised as deferred pay. To enable employers to encourage a culture of saving it is imperative that the any loss of revenue from the removal of the national insurance rebate is recycled back to employers.

8. How can the government make sure that any reform of pensions tax relief is sustainable for the future?

The key concern of moving to TEE system is the fact that it may well not be sustainable as individuals may have less confidence in trusting future governments to honour promises on maintaining the tax-free nature of pension pay outs. The constant change in pension legislation may also provide doubt that future governments would not keep the promise of today's policy makers and tax pensions in payment.

It is probable that if pensions start to be taxed like ISA that most people would prefer the flexibility and better reputation of an ISA over a pension product with a detrimental outcome on auto-enrolment.

In conclusion, while we understand that tax relief on pensions costs a significant amount of money, in order to catalyse a broad-based saving culture, specifically among those on low to middle incomes, a single rate of tax relief is likely to incentivise savings. The removal of upfront tax relief will signify the end of pensions if people do not receive any direct benefit from contributing to pension schemes

Although the change to a TEE model will realise immediate gain for the Exchequer, it will undermine peoples' confidence, and place greater pressure on individual finances, resulting in people opting out of pension saving and ultimately store up a larger burden on the state.

Yours sincerely

Author Yvonne Caddock

Government Consultation on Pensions Taxation – Appendix 2

Thoughts from around the industry

Industry pundits generally – 'the cuts could deter people from saving into a pension and make the system more complex'. Professional Pensions magazine.

Steve Webb (former Pensions Minister) – 'Single rate tax relief of 30% would encourage lower earners to save, unlike the current system which gives a greater incentive to higher earners'

Tom McPhail (Hargreaves Lansdown) – 'If the Treasury simply started treating pensions like ISAs, it risks undermining the current (and very important) incentives to make long-term retirement savings'.

Michael Johnson (Centre for Policy Studies) – 'The current EET* model of tax relief is patently failing the next generation'.

Joanne Segers (NAPF) – 'Major changes in taxation, such as a move to TEE*, ask savers to believe a future government will be able to keep the promises made by a Chancellor today' And when it comes to rules governing pensions taxation, experience shows events rarely turn out that way'.

Kevin Wesbroom (Aon Hewitt) – 'This would appear to be a genuine consultation on whether the pension tax system needs to change, rather than how. But we cannot ignore the influence of the fiscal imperative to get a suitable outcome in terms of tax revenue. A switch to ISA-style taxation switches the tax-timing for a generation and would have huge appeal to the Treasury. Individuals may have less confidence in trusting future governments to honour promises on maintaining the tax-free nature of pension pay-outs'.

Simon Laight (Pinsent Masons) – 'Moving to an ISA tax system (TEE) brings forward tax receipts for the Exchequer. It also takes higher rate tax relief away from all higher rate taxpayers, but only gives tax relief at that rate to those of them whose pensions would also be taxed at the higher rate. Let's hope that the stated aim of incentivising people to save isn't a Trojan Horse precipitating a more general raid on pensions'.

Duncan Buchannan (Society of Pension Professionals) – Pensions are a long-term investment and, unlike ISAs, benefits cannot be withdrawn before a minimum age. If pensions start to be taxed like ISAs, it is likely that most people would prefer the flexibility (and better reputation) of an ISA over a pension product, so where would this leave auto-enrolment'? 5

Lesley Harrold (Norton Rose Fullbright) – I'm not sure in the long run how fair that would be because most people, I think we can assume, earn or have a lower income in retirement than they did during their working years. They would be foregoing whatever rate of tax relief they would have had under the current system (EET) on their contributions and only getting relief on the way out at the lower rate'.

Fiona Morrison (Institute and Faculty of Actuaries) – 'The current system, where taxation applies as funds are withdrawn and taken as income or capital, enables tax to operate as a natural break on an individual over-spending early in retirement, as people generally act in ways to reduce their tax bills. Removing this natural break could mean individuals exhausting all pensions assets earlier than intended and we end up with a poorer pensioner population than expected, with the possibility of the government having to step in'.

*EET refers to the 'Exempt – Exempt – Taxable' model currently applied to 'Pension contributions – Investment Income – Pension payments' respectively
TEE refers to the ISA-style approach of 'Taxable – Exempt – Exempt' potentially to be applied to 'Pension contributions – Investment Income – Pension payments' respectively

WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	EMPLOYER TERMINATION DEBT ASSESSMENT
WARD/S AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES
KEY DECISION	NO

1.0 **EXECUTIVE SUMMARY**

1.1 The Funding Strategy Statement sets out the basis for valuing assets and liabilities in the event of an employer terminating its participation in the fund. The policy is designed to be equitable to both the exiting employer and the continuing employers within the Fund.

1.2 Mercer have provided advice to the Administering Authority following recent changes in the LGPS Regulations governing the options and treatment available to Administering Authorities either at termination, or prior to an expected termination at some point in the future. Mercer's advice is contained within Appendix 1.

1.3 The main changes relate to how a termination assessment can be triggered and the repayment plan to be set by the Administering Authority. This has implications for the basis on which the termination value is assessed.

2.0 **BACKGROUND AND KEY ISSUES**

2.1 When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body at the exit date prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then become the responsibility of any existing guarantor in the Fund or of the Fund as a whole (i.e. all participating employers), in which case they become known as "orphan liabilities".

2.2 Therefore an exit contribution payment will be requested from the outgoing employer or guarantor (unless the deficit passes to the guarantor within the Fund). The exit payment is assessed on the termination basis which depends

on the nature of the employer as per appendix 2 of the Funding Strategy Statement.

2.3 For certain employers without a guarantor in the Fund, the Actuary uses a more prudent basis than the normal ongoing funding basis which increases the termination payment. This provides some protection to the other employers from adverse movements in the financial markets after the employer exits the Fund, given this cannot be reclaimed from the original employer.

2.4 The current termination basis uses the non-financial assumptions from the latest triennial valuation to value the liabilities. The Fund does not make any adjustment to these (mainly demographic) assumptions.

2.5 The Fund currently agrees a payment plan with the exiting employer. If an instalment plan is agreed, the plan cannot be reassessed at subsequent valuations.

3.0 RELEVANT RISKS

Termination Payment Plans:

3.1 The Regulations have been amended so that termination calculations are triggered for any employer when the last active member leaves. The Regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the new Regulations, once set this plan is generally not reviewable at subsequent valuations unless the administering authority considers it appropriate to revisit the repayment schedule.

3.2 The Fund's policy for termination payment plans will be as follows:

a) The default position is for exit payments to be paid immediately in full.

b) Instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt. The Fund will also seek to obtain further security from the outgoing employer where deemed necessary.

Termination basis

3.3 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Along with other issues, such as covenant strength, the assessment of

termination liabilities that is equitable to all scheme employers is crucial part of the risk management process.

3.4 The Actuary has advised that the use of the more prudent basis is still appropriate for assessing liabilities on termination. These bases are intended to mitigate financial market risks. However, it may not provide sufficient protection against future adverse demographic experience relative to the assumptions which could emerge at future triennial valuations.

3.5 Historically, there have been few large employers that have left the Fund. However, with the advent of auto-enrolment and a difficult funding environment, more employers are reconsidering their participation in the scheme and in some cases they are actively seeking to exit the Fund. In this environment there is an increased risk that adverse movements in the funding assumptions could have a more significant impact on the remaining participating employers over time, if demographic experience turns out worse than expected. Therefore the Actuary feels it is appropriate to include a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers.

3.6 The Actuary advises a reasonable adjustment is made to the assumption for longevity improvements over time by increasing the longevity improvement rate from a long term trend of 1.5% p.a. (used in the 2013 valuation for ongoing funding and contribution purposes) to 2% p.a. (in relation to the termination assessment for an outgoing employer).

3.7 The Fund's policy for the termination funding basis will normally be as follows:

Use a 2% p.a. long term rate for longevity improvements.

3.8 These changes to policy will be incorporated in the next review of the FSS.

3.9 The assumptions adopted for termination assessments will be next reviewed as part of the 2016 valuation.

4.0 **OTHER OPTIONS CONSIDERED**

4.1 Not relevant for this report

5.0 **CONSULTATION**

5.1 Not relevant for this report.

6.0 **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 Not relevant for this report.

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

Not relevant for this report

8.0 **LEGAL IMPLICATIONS**

8.1 Not relevant for this report.

9.0 **EQUALITIES IMPLICATIONS**

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

No because there is no relevance to equality.

10.0 **CARBON REDUCTION IMPLICATIONS**

10.1 Not relevant for this report.

11.0 **PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 Not relevant for this report.

12.0 **RECOMMENDATIONS**

12.1 The Committee:
Approves the changes to the termination policy with regard to:

ii. Repayment plans
iii. The margin for adverse demographic risk factors

13.0 **REASON/S FOR RECOMMENDATION/S**

13.1 See relevant risks section.

REPORT AUTHOR: **Yvonne Caddock**
Principal Pension Officer
telephone: (0151 242 1333)
email: yvonnecaddock@wirral.gov.uk

APPENDICES

Mercer's advice is contained within Appendix 1.

REFERENCE MATERIAL

Not relevant for this report

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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MERCER
MAKE TOMORROW, TODAY

MERSEYSIDE PENSION FUND

BRIEFING NOTE TO SUPPORT ADJUSTMENT TO THE TERMINATION POLICY PROCESS

Introduction

1. This briefing note has been produced at the request of the Administering Authority of the Merseyside Pension Fund ("the Fund"). This briefing note is intended to clarify and support the Fund's policy, as set out in Appendix 2 to the Funding Strategy Statement ("the FSS"), applicable in the event of an employer terminating its participation within the Fund. In time the FSS will be updated but we do not feel a formal update or consultation with employers is necessary at this stage as it relates to a change in operational process and an update of the actuarial advice in relation to exercising a regulatory requirement for the Actuary to calculate the termination position.

2. This clarification note is also necessary as a result of a change in the LGPS Regulations governing the options and treatment available to Administering Authorities either at termination, or prior to an expected termination at some point in the future.

3. The Regulations have been amended such that termination assessments are now automatically triggered for any employer in the Fund when the last active member leaves service (ie the employer becomes an "exiting employer"). The amended Regulations now provide a power for the Administering Authority to use its discretion to agree an instalment plan to recover any outstanding debt over a pre-determined period. Based on our view of the Regulations, it is expected that any instalment plan entered into would be a non-reviewable payment plan once certified by the Fund Actuary.

4. The termination policy including the aspects outlined in this note, along with all other Fund policies will continue to be monitored for appropriateness. The FSS will also be formally reviewed as part of the 2016 valuation but will also be considered as part of the 2015 interim valuation.

Existing Policy

5. When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then

become the responsibility of any existing guarantor in the Fund or by the Fund as a whole (i.e. all participating employers), in which case they become known as “orphan liabilities”.

6. Therefore, unless the Fund deems it appropriate that any deficit is subsumed by the guarantor within the Fund, an exit contribution payment will be requested from the outgoing employer or guarantor. As set out in the FSS, the deficit will be assessed using market conditions as at the exit date i.e. based on the market yields at that point and assessed market value of the assets relating to that employer.

   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:-

   i. Assessing the final termination liabilities using assumptions consistent with the most recent **valuation basis** i.e. a basis **including allowance for asset returns based on prudent expectations from the current Fund investment strategy.**

   ii. Assessing the final liabilities using a discount rate based on AA rated **corporate bond yields.**

   iii. Assessing the final liabilities using assumptions consistent with the most recent valuation basis but **removing the allowance for asset outperformance** i.e. a **"least risk" basis.**

   Given that the assessment uses corporate bond yields as a basis for determining the deficit for certain employers without a guarantor and a least risk basis approach for employers who joined the Fund after 1 April 2011 without a guarantor, this provides a contingency margin against adverse changes in the residual funding position. It would be possible to introduce further margins for the financial assumptions but we do not feel that this is appropriate at the current time.

Margin for adverse demographic risk factors

7. Given that certain employers (some of which are quite large) are potentially seeking to exit the Fund due to their own financial circumstances, we have advised Fund Officers that there is justification for introducing a further adjustment when assessing final termination contributions. This is to further protect the other participating employers in the Fund against the risk of adverse future demographic experience e.g. in relation to improving life expectancy. The existing approach does mitigate the financial risks in relation to market factors by introducing prudence in the assumptions. However, it does not incorporate any *further* prudential margin relative to the ongoing valuation funding assumptions in order to reduce the risk of future adverse demographic experience (for example, further increases in life expectancies and the impact of potential future ill-health retirements of deferred members).

8. We therefore recommend that in order to build in a sufficient margin for adverse demographic experience, modified longevity assumptions should be used when assessing the liabilities as described in paragraph 6. We have advised the Fund Officers that with immediate effect, a higher improvement rate in life expectancies than that incorporated in the 2013 valuation funding assumptions should be adopted for assessing the exit payment due when an employer terminates participation.

   The actuarial assumptions adopted at the most recent triennial valuation are based on industry-wide standard tables published by The Continuous Mortality Investigation (CMI), and are then adjusted to reflect the actual experience of the Fund membership. These assumptions also build in an allowance for longevity 'improvement' year-on-year in line with the CMI projections subject to a long-term trend of 1.5% per annum. We have advised the Fund Officers that increasing the improvement allowance to a long-term trend of 2.0% per annum is reasonable and proportionate at this stage. However, the precise application of this may be refined further (eg for larger cases), having regard to advice provided by the Fund Actuary on a case by case basis.

Operational changes & flexible recovery plans

9. As stated in paragraph 3, the amended Regulations now enable the Administering Authority to agree to an instalment plan at its own discretion, in advance of an employer's exit, to recover any outstanding debt over a pre-determined period. The Administering Authority may require further security to underpin the instalment plan e.g. a guarantee or a bond.

10. The Administering Authority's default position is for the exit payment to be paid immediately, however it is appreciated that this is not always possible on the grounds of affordability and it may be in the interests of the Fund to agree an instalment plan to maximise the monies recovered where the employer has little resources available. Therefore, the Administering Authority will monitor and engage with all the relevant employers as they naturally approach the end of their participation, or because of some other reason (e.g. small number of active members, insecure funding streams etc).

11. The Administering Authority will therefore use its discretion, in conjunction with advice received from the Fund Actuary, in managing debt repayment plans for employers approaching their exit from the Fund. This will be driven by each employer's own affordability constraints and this will be balanced against the overall covenant strength/future business plans & funding streams.

12. Therefore, the Fund Actuary will construct the final certification such that it affords the flexibility to the Fund Officers to adjust the fixed plan over the agreed recovery period to recover monies due in an efficient and effective manner. In addition the Administering Authority reserves the right to enter into a separate agreement on a case by case basis in order to formalise any required security and undertakings made by the employer to support the required termination instalment plan.

Mercer Limited
August 2015

We have prepared this paper for the Administering Authority for the purpose of it assisting employers managing their exit from the Fund ("the purpose") in line with the existing Funding Strategy Statement. We do not accept any liability or responsibility to any third party in respect of this paper.

This paper is confidential and may not be disclosed in whole or in part to any third party without Mercer's prior written consent, unless required by law or order of a court or regulatory body.

This paper is correct as at August 2015. It will not be updated unless requested.

In producing this paper, we have considered the legal obligations of the Administering Authority as set out in the LGPS Regulations but have not taken into account any specific commercial or other arrangements that may exist between any other parties.

We are not lawyers / accountants. We are unable to give legal/tax advice. If you think such advice is appropriate you are responsible for obtaining your own professional legal / accountancy / tax advice.

WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**LGPS TRUSTEE 'FUNDAMENTALS' TRAINING**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report recommends the Committee to approve participation by Members in the LGPS Trustee Training 'Fundamentals XIV' organised by the Local Government Pensions Committee.

2.0 BACKGROUND AND KEY ISSUES

2.1 The fundamentals course is run on an annual basis and provides an insight to LGPS 'trusteeship' for newly elected Committee members whilst also serving as an update/refresher course for longer-serving members. The course is of three days duration, spread over a number of months at three locations around the UK. As identical material is delivered at each location, it is possible to attend the course by visiting different locations should delegates' diaries not allow attendance on all three days at a particular location.

2.2 Fundamentals is a bespoke LGPS training course predominately aimed at elected members serving on pension committees/panel, and has been attended by over 1000 delegates since 2002. The 2015 event incorporates all legislative changes made to the LGPS since last year's event and all sections are refreshed to keep them up-to-date, relevant and interesting.

2.3 The aim of the LGPC remains unaltered; that is to deliver a single training course covering all aspects of the Scheme, including both 'Benefits' and 'Fund' administration, as well as 'Investments' so that attendees can demonstrate compliance with the first of the six CIPFA principles and receive educational material in line with CIPFA's Pensions Knowledge and Skills Framework.

2.4 Attendance is likely to be of most benefit to newer members of Committee providing a useful grounding in all aspects of local government pensions.

2.5 Dates and venues:

Cardiff	Day 1	6 October
	Day 2	3 November
	Day 3	15 December
Leeds	Day 1	21 October
	Day 2	17 November
	Day 3	8 December
London	Day 1	15 October
	Day 2	10 November
	Day 3	1 December

2.6 It is believed that attendance at all three days of the course will satisfy at least the minimum of training required to satisfy the first of the six CIPFA principles. Attendees at all three sessions will receive a certificate of attendance.

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 delegate rate for each session, inclusive of lunch, refreshments and all delegate materials is £240 plus VAT. Travelling costs and accommodation, where required, will be an additional expense. These costs can be met from existing budgets.

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 attendance by Members on the 'Fundamentals training' be approved.

13.2 That Members wishing to take advantage of this opportunity notify the Head of Pension Fund to enable the necessary registration and administration to be undertaken.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Attendance is likely to be of most benefit to newer members of Committee providing a useful grounding in all aspects of local government pensions.

REPORT AUTHOR: ***PETER WALLACH***
HEAD OF PENSION FUND
telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
A report on this training opportunity is brought to this Committee annually	

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WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**ANNUAL EMPLOYERS' CONFERENCE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the arrangements for the annual Employers' Conference to be held on Thursday 26 November 2015.

2.0 BACKGROUND AND KEY ISSUES

2.1 The 2015 conference will be held at Aintree Racecourse on Thursday 26 November.

2.2 The draft programme commences with Coffee and Registration from 9.15am, with a start time of 10am. There will be an open forum for questions and an anticipated finish time of 1pm. Lunch will be provided for delegates.

2.3 Officers will deliver presentations on the investment performance and administration of the Pension Fund over the previous year. External speakers are yet to be confirmed.

2.4 Members are invited to attend the Conference and further details will be circulated to all Members of this Committee as soon as arrangements are finalised.

3.0 RELEVANT RISKS

3.1 There are none rising directly from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The location, public transport links and overall quality of the venue has been consistently commended by delegates as an excellent or very good venue.

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 are none arising from this report

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

8.1 The cost of holding the Conference is estimated at £6,500; provision for which is contained within the 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?

Yes - Access for delegates with limited mobility has been assessed; appropriate emergency arrangements in place. A hearing loop and relay screens will be provided for people with sensory impairments.

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/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The event provides a forum for officers, advisors and the newly constituted Local Pension Board to report to employers and key stakeholders on the progress of the Fund.

14.2 The value of holding an annual conference was recognised following the successful re-introduction of this event in November 1997.

14.3 Feedback from attendees has consistently demonstrated the value that employers place in the opportunity to hear presentations on topical issues and receive reports on current Fund activity and performance.

REPORT AUTHOR: Yvonne Caddock
Principal Pension Officer
telephone (0151) 242 1333
email yvonnecaddock@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**15 September 2014**
Pensions Committee	**16 September 2013**
Pensions Committee	**18 September 2012**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**LAPFF CONFERENCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report recommends that the Committee approves attendance by the Chair and party spokespersons at the Local Authority Pension Fund Forum (LAPFF) Annual Conference, organised by PIRC, to be held in Bournemouth from 2 to 4 December 2014.

2.0 BACKGROUND AND KEY ISSUES

2.1 MPF is a member of LAPFF and its Annual General Meeting and annual conference provides a forum for topical issues affecting Local Authority Pension Funds to be discussed and addressed. With responsible investment issues gaining a higher profile it is proposed that the arrangements pertaining last year are continued and invitations extended to party spokespersons as well as the Chair.

2.2 An agenda for the conference has not been published and will be circulated when available.

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 LAPFF membership allows for two free conference places. Additional places will cost around £800 per head with travel costs an additional expense.

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 attendance at the LAPFF conference by the Chair and party spokepersons be approved.

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 2015.

REPORT AUTHOR: ***PETER WALLACH***
HEAD OF PENSION FUND
telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	September 2013
Pensions Committee	September 2012
Pensions Committee	September 2011

WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**ELECTED MEMBER EDUCATIONAL EVENT**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report recommends that the Committee considers attendance by Members at the forth 330 Consulting Elected Member Educational Event (EMEE) at the Tower of London in London on Wednesday 7 October 2015.

2.0 BACKGROUND AND KEY ISSUES

2.1 The event is designed for those members of Pensions Committees who are relatively new to their roles, but it is also open to other, more experienced, Committee members who would like a refresher on some key investment concepts and issues.

The intention is that attendees can benefit from presentations on investment topics that do not assume a detailed understanding of the investment world, and yet which provide a good grounding on each topic to help attendees in their duties back in the real world.

2.2 To help keep the day interesting, and not make it too focussed in investment topics, the EMEE will again be a mixture of educational investment sessions and politically-themed presentations. The agenda is set out at appendix 1.

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 Attendance is free. There will be travel costs to London and overnight accommodation may be required for the night of 6 October.

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

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Attendance at this conference will assist Members in fulfilling the Committee's Knowledge and Skills objectives as set out by CIPFA.

REPORT AUTHOR: ***PETER WALLACH***
HEAD OF PENSION FUND
telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Appendix 1

Elected Member Educational Event (EMEE)

New Armouries Building
Tower of London
London • EC3N 4AB

Wednesday 7th October 2015

Agenda

08:45 - 09:30 ***Registration and Coffee*** - Events Suite

09:30 - 09:40 ***Welcome***

David Crum, 330 Consulting

David will take a few moments to welcome everyone to the event, set out the plan for the day, and deal with any pertinent housekeeping issues.

09:40 - 10:15 ***The Essential Guide to Managing an LGPS Fund***

John Harrison, Independent Advisor to an LGPS Fund

Newly appointed members to both Pensions Committees and Local Pensions Boards might initially feel somewhat daunted by the task that lies ahead - helping oversee the running of hundreds of millions, sometimes billions, of pounds of investments on behalf of scheme members. Which aspects of their roles are most important?

Help is at hand in this first session, as John, himself an independent advisor to an LGPS Fund, gives his views on the things he believes Committees and Boards should prioritise when it comes to managing LGPS pension fund arrangements, and where they can turn for help.

10:15 - 10:50 ***Pension Fund Investment Themes and Outlook***

Atul Shinh, Investment Specialist, Multi-Asset team, Investec Asset Management

Investors have had a turbulent time in 2015 - with a

'Grexit' narrowly avoided (for the moment), a significant market rise and subsequent fall in China, oil prices dropping to their lowest level for several years, and with impending interest rate rises in the 'developed' economies it's been an eventful year so far. But what does all of this mean for long term institutional investors such as LGPS Funds?

In this session, Atul will look at these, and other, financial market developments, explaining to event attendees what they really mean for long term pension fund strategies. He'll also look in to his crystal ball to share his thoughts on what might happen with markets over the rest of the year, and into next year.

10:50 - 11:25 ***'Mega' Trends in UK Real Estate***

James Lass. Fund Manager, UK Real Estate Fund, Schroders Investment Management

Property tends to be the cornerstone of most LGPS Funds' investment strategies - historically, allocations have not tended to fluctuate as much as exposures to the other asset classes, which suggests that many investors see real estate as a 'buy and hold' investment. But, as with other investments, the market has undergone significant changes over the last few decades.

In this session, James will provide a history of real estate investing, discussing how factors such as urbanisation, technology and demographics have - and will - affect investment opportunities and returns. He will give some live examples of how this has translated into investment strategy for Schroders, and will also share his current thinking on market opportunities.

11:25 - 11:50 ***Coffee Break*** - Events Suite

11:50 - 12:25 ***Parental Power - Why Mumsnet Matters to Politicians***

Rowan Davies, Head of Policy & Campaigns, Mumsnet

Rowan is Head of Policy and Campaigns at Mumsnet, the UK's largest network for parents, with 70 million page views and over 10 million visits per month. At Mumsnet, Rowan works on policy issues that affect their users, and on building relationships with external organisations, stakeholders and policy makers. She also manages Mumsnet's campaigns, such as better miscarriage care and libel reform.

12:25 - 13:00 ***Finding the 'Crown Jewels' in Private Equity***

Carolyn Skuce, Director - Business Development, and Mark Drugan, Managing Director - Head of Investment Management Europe, Capital Dynamics

Many LGPS Funds have had exposure to Private Equity for many year. It has been an important asset class, with returns consistently outperforming quoted equity markets over the long term. As a result, Private Equity has been an important investment solution to help bridge LGPS funding gaps.

In this session Carolyn and Mark will give an

introduction to private equity, move on to provide an insight in to the investment decision making process at both the manager and company level, before concluding with a current private equity market overview.

13:00 - 13:50 ***Lunch*** - Events Suite

13:50 - 14:25 ***Government Finances - Behind The Headlines***

Paul Johnson, Director, Institute for Fiscal Studies

Paul has published and broadcast extensively on numerous issues in the economics of public policy including tax, welfare, inequality and poverty, pensions, education, climate change and public finances. He is author of major books on pensions, tax and inequality. In the last year Paul has been a regular contributor to the Today programme, and television news and current affairs programmes, as well as author of numerous articles in the press.

Paul has been director of the Institute for Fiscal Studies since January 2011. As well as a previous spell at the IFS in the 1990s (including a period as deputy director) Paul has been chief economist at the Department for Education and director of public spending in HM Treasury. At Treasury his responsibilities included public sector pay and pensions and climate change policy. Other positions include a period as head of economics at the FSA and as a senior associate with Frontier Economics.

Between 2004 and 2007 Paul was deputy head of the Government Economic Service. He served on the council of the Economic and Social Research Council and was elected to the council of the Royal Economic Society in 2011. He was a founder council member of the Pensions Policy Institute and in 2010 he led a review of the policy of auto-enrolment into pensions for the new government.

He is currently on the council of the Family and Parenting Institute. Paul has been a member of a number of advisory boards and commissions including the Pension Provision Group, the Commission on taxation and citizenship, and the Commission on Living Standards. He is an editor of the Mirrlees Review of tax economics and policy.

14:25 - 15:00 ***Credit Yields: What Goes Down Must Come Up?***

Esty Dwek, Global Strategist, Loomis Sayles

Fixed interest assets remain a popular component of almost every LGPS Fund's investment strategy, with many Funds also having a meaningful exposure to 'Credit' - that is, company and foreign government / body loans. However, this asset class remains one that many new LGPS 'trustees' find challenging to understand, let alone monitor.

In this session, Esty will cover the history of 'credit', explain some of the key terms used by investment managers when managing and discussing the asset class, and will state why credit is important to LGPS Funds. Esty will then go on to explore what might happen to credit as interest rates rise across the globe, and will set out which factors and concepts investors

should be most concerned with regarding this eventuality.

15:00 - 15:25 ***Coffee*** - Events Suite

15:25 - 16:00 ***Passive Investing - A Better Approach?***

Stuart Morris, Executive Director, Institutional Clients (UK & Ireland) - BNP Paribas

Almost every pension fund has some exposure to 'passive' investments - that is, investments that track the structure and composition of specific market indicies, and where no 'active' investment management techniques are employed. Passive investing, clearly, is important to LGPS Funds' future success, and the recent consultation exercise by the Department for Communities and Local Government has shown that Government also believes passive investment should play a major role going forward.

In this session, Stuart will provide an overview of passive investing - how it operates, highlighting some of the common indices used, and stating the pros and cons of the predominantly used 'market capitalisation' approach. He will then go on to explore whether there is a better approach to structuring 'passive' investments that can result in better long term returns for investors, and will explain how such an approach would work in practice.

16:00 - 16:45 ***Politicians and the Military***

General Sir Mike Jackson

General Sir Mike Jackson served as Chief of the General Staff and Head of the Army until 2006. He commanded the British in Iraq, UN forces in Kosovo and peacekeeping missions in Bosnia.

Sir Mike was originally commissioned into the Intelligence Corps, specialising in the threat from the Soviet Union. He transferred to the Parachute Regiment and was on duty in Northern Ireland on what became known as Bloody Sunday.

In the 90s, he served as deputy to NATO Supreme Allied Commander Europe, General Wesley Clark. He famously refused Clark's order to block the runway at Pristina airport, telling him "I won't start World War III for you." Had he complied, British and Russian troops might well have come into armed conflict.

In the wake of the Iraq invasion it was Sir Mike who ordered an inquiry into images released by the Daily Mirror depicting alleged torture of Iraqi prisoners by British soldiers. The Mirror's editor Piers Morgan was later fired, after the pictures were shown to be a hoax.

Sir Mike remains extremely proud of his soldiers' record, whilst critical of Donald Rumsfeld's original post-conflict strategy. He has also questioned the Ministry of Defence's understanding of the ethos of the armed forces, and the debt they are owed by Government.

16:45 ***Close***

David Crum

16:45 - 18:30 ***Drinks reception*** - Events Suite

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WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR ADMISSION BODIES WITH BONDS OR GUARANTORS**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs members on the annual review of potential unfunded liabilities for admission bodies. This work is undertaken by Mercer the Fund Actuary, following an actuarial review as at 31 March 2015.

1.2 The Appendix to the report 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 In accordance with the Committee decision on 22 March 2000 (Minute 52 refers), officers were asked to specifically monitor the potential unfunded liabilities in respect of the premature closure of admission bodies with a high level of indicative liability (£250,000 or more).

This work is undertaken by the Actuary performing an annual funding review and officers considering the financial strength and covenants of the relevant organisations.

2.2 The results of the admission bodies previous liability review, as at 31 December 2013, was considered by the Committee on 1 July 2014 (Minute 12 refers).

2.3 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2015 are attached within the exempt appendix.

2.4 The calculations have been determined by considering the 2013 Valuation funding position, the assets and liabilities have been rolled forward by reflecting estimated cashflows, net investment returns on the Fund's assets and the change in bond yields.

As such the funding positions presented for each employer are approximate as they do not reflect updated membership movements and cashflows since the valuation, but they provide Merseyside Pension Fund with a reasonable basis to determine the level of risk exposure.

The actual unfunded liabilities for each body would not be known unless the body closed and precise calculations would be undertaken at that time.

2.5 In accordance with the Funding Strategy Statement, the assessment of the employers potential exit debt will be based on a more cautious basis, than ongoing funding arrangements used to determine employer contributions.

2.6 The financial assumptions applicable to determine the contingent liabilities are consistent with the equivalent assumptions adopted for the IAS19 Accounting Standard, on the proviso that the financial assumptions used are no less cautious than the valuation assumptions.

2.7 The Actuary has calculated the potential unfunded liabilities as follows:

i. the cost of providing immediate benefits to those members age 55 or over in the year 1 April 2015 to 31 March 2016

ii. less, 50% of the potential savings that may materialise in respect of members under age 55 with deferred benefits.

iii. plus the existing surplus or deficit at 31 March 2015.

2.8 A number of admission bodies have found it difficult to obtain from financial institutions the required financial guarantees or indemnities previously recommended by the Actuary and alternatives such as charges against property or parent company guarantees have been agreed in a number of cases with the Fund

2.9 For any admission body that does not have either a local authority guarantor, a bond or indemnity, the employer contribution rate remains subject to a risk premium loading. The aim of the risk premium is to achieve a funding level of 120% of the active members' liabilities over the body's recovery period.

2.10 On a general basis, the bond requirements have increased by an average of 200% from those currently in-force, as revised following the 2013 triennial valuation.

2.11 In view of the current financial pressures faced by employers, which will be exacerbated next April by the loss of the employer's contracted out rebate, many admission bodies will find it difficult to secure the increased indemnities.

If the Fund seeks to increase the bond levels inline with the current calculations, a number of employers will be forced into closure on the basis of a speculative event.

3.0 RELEVANT RISKS

3.1 As there are significant shortfalls in the majority of in-force bonds relative to the actuarial assessment of the potential termination debts, there is a risk that in the event of a Community Admission Body exiting the Fund any unrecoverable debt will fall to the remaining employers within the Fund.

3.2 If compelled to implement the increased financial indemnities, employers may face significant financial hardship which could lead to the employer's insolvency. There would be a high risk that the termination debts would crystallise leaving the Fund with an immediate irrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

4.1 None.

5.0 CONSULTATION

5.1 The Fund consulted with employers during Autumn 2013 before updating the Funding Strategy Statement, which included the methodology for determination of bond requirements.

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 None arising from this report.

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

7.1 In the event that the increased bond coverage is sought, Fund Officers and the Monitoring Officer will be required to engage in prolonged negotiations with employers. In some instances, this is likely to result in non compliance of the employer on the grounds of affordability or the inability to obtain a bond from an appropriate provider.

8.0 LEGAL IMPLICATIONS

8.1 None arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 (a) 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 None arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report.

12. 0 RECOMMENDATION/S

12.1 Members are recommended to consider, having regard to the current financial pressures facing employers, that the bond requirements for Community Admission Bodies are not increased but are retained at the current 2013 levels.

13.0 REASON FOR RECOMMENDATION/S

13.1 A further review will be undertaken at 31/3/2016 as part of the triennial valuation and the level of the bonds will be reconsidered having regard to the outcome of the consultation on the Funding Strategy Statement and the financial position at that time

13.2 Employers who have a risk premium or any local authority or statutory bodies that underwrite the pension obligations of any scheme employer will be informed of the potential unfunded liabilities to apprise them of their financial obligations

REPORT AUTHOR: **Yvonne Caddock**
Principal Pension Officer
telephone: (0151) 242 1333
email: yvonnecaddock@wirral.gov.uk

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Review of Potential Unfunded Liabilities For Admission Bodies	**27 June 2011**
Review of Potential Unfunded Liabilities For Admission Bodies	**18 September 2012**
Review of Potential Unfunded Liabilities For Admission Bodies	**1 July 2014**

WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**MINUTES OF THE INVESTMENT MONITORING WORKING PARTY**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
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 (IMWP) held on 19 June 2015.

1.2 The appendix to the report, the minutes of the IMWP on 19 June 2015, 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 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

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 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 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 Members approve the minutes of the IMWP which are attached as an appendix to this report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 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.

REPORT AUTHOR: **Peter Wallach**
Head of Pension Fund
telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

Exempt Appendix 1

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

Minutes of Investment Monitoring Working Party, 19 June 2015

In attendance:

(Chair) Councillor Paul Doughty (WBC)	Peter Wallach (Head of MPF)
Councillor Cherry Povall (WBC)	Joe Blott (Strategic Director Transformation and Resources)
Councillor Ann McLachlan (WBC)	Linda Desforges (Investment Manager)
Councillor Treena Johnson (WBC)	Leyland Otter (Senior Investment Manager)
Councillor Adrian Jones (WBC)	Donna Smith (Group Accountant)
Councillor Brian Kenny (WBC)	Susannah Friar (Property Manager)
Councillor John Fulham (St. Helens MBC)	Allister Goulding (Investment Manager)
Councillor George Davies (WBC)	Adil Manzoor (Tax Accountant)
Noel Mills (Independent Advisor)	Emma Jones (PA to Head of Pension Fund)
Emily McGuire (AON Hewitt)	

Apologies were received from:

Councillor Geoffrey Watt (WBC)	Councillor Paulette Lappin
Councillor Patrick Cleary (WBC)	

Declarations of Interest

Councillor Paul Doughty declared an interest due to a relation being a beneficiary of Merseyside Pension Fund.
Councillor George Davies declared an interest due to a relation being a beneficiary of Merseyside Pension Fund.

Councillor John Fulham declared an interest due to being a beneficiary of Merseyside Pension Fund.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**GOVERNANCE & RISK WORKING PARTY MINUTES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides members with the minutes of the Governance & Risk Working Party (GRWP) held 30 June 2015.

1.2 An exempt report on the agenda, the minutes of the GRWP on 30 June 2015, 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 advisers 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.

REPORT AUTHOR: ***PETER WALLACH***
HEAD OF PENSION FUND
telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1 – Minutes

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
GRWP minutes	March 2015
GRWP minutes	September 2014
GRWP minutes	March 2014

Minutes of the Meeting of the Governance and Risk Working Party

Tuesday 30 June 2015

In attendance: Emma Jones

Councillor Paul Doughty (Chair) (WBC)	Peter Wallach (Head of MPF)
Councillor Geoffrey Watt (WBC)	Joe Blott (Strategic Director T&R)
Councillor Ann McLachlan (WBC)	Yvonne Caddock (Principal Pensions Officer)
Councillor Treena Johnson (WBC)	Guy Hayton (Operations Manager)
Councillor Adrian Jones (WBC)	Donna Smith (Group Accountant)
Councillor Paulette Lappin (Sefton)	Jonathan Carden (Clerical Assistant)

Apologies were received from:

Councillor Cherry Povall (WBC)	Councillor John Fulham (St. Helens)
Councillor Pat Cleary (WBC)	Councillor Brian Kenny (WBC)

1. Approval of Minutes

Minutes of G&RWP, dated Monday 2 February 2015 were approved.

2.

3. Declarations of Interest

Councillor Paul Doughty declared an interest due to a relation being a beneficiary of the Fund.

Councillor Geoffrey Watt declared an interest due to a relation being a beneficiary of the Fund.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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