Public Document Pack

WIRRAL

# Local Pensions Board

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|---|---|
| **Date:** | **Tuesday, 11 October 2016** |
| **Time:** | **1.00 pm** |
| **Venue:** | Castle Chambers |


**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 Board 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 28 June, 2016.

**3. AUDIT FINDINGS REPORT & DRAFT ANNUAL REPORT AND ACCOUNTS (Pages 7 - 96)**

**4. INVESTMENT PERFORMANCE (Pages 97 - 104)**

**5. LGPS UPDATE (Pages 105 - 122)**

**6. TREASURY MANAGEMENT ANNUAL REPORT (Pages 123 - 130)**

**7. GAD SECTION 13 DRY RUN (Pages 131 - 142)**

**8. CIPFA TRAINING EVENT (Pages 143 - 146)**

**9. ANNUAL EMPLOYERS CONFERENCE (Pages 147 - 150)**

**10. FINAL POOLING SUBMISSION (Pages 151 - 182)**

11. **NON-RECOVERY OF PENSION OVERPAYMENTS (Pages 183 - 190)**

12. **ADMINISTRATION KPI REPORT**

13. **IMWP MINUTES 09/06/16 (Pages 191 - 194)**

14. **GRWP MINUTES 30/06/16 (Pages 195 - 198)**

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

    The following items contain exempt information.

    RECOMMENDATION: That under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

16. **FINAL POOLING SUBMISSION (Pages 199 - 234)**

17. **NON-RECOVERY OF PENSION OVERPAYMENTS (Pages 235 - 236)**

18. **ADMINISTRATION KPI REPORT (Pages 237 - 254)**

19. **IMWP MINUTES 09/06/16 (Pages 255 - 260)**

20. **GRWP MINUTES 30/06/16 (Pages 261 - 266)**

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

# LOCAL PENSIONS BOARD

Tuesday, 28 June 2016

| | | |
|---|---|---|
| Present: | J Raisin (Chair) | |
| | G Broadhead | D Ridland |
| | G Hornby | P Goodwin |
| | R Dawson | P Maloney |
| Apologies | K Beirne | P Wiggins |

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

Members were 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.

No such declarations were made.

39 **MINUTES**

**Resolved – That the accuracy of the Minutes of the Local Pension Board held on 14 April 2016 be approved as a correct record.**

40 **LGPS UPDATE**

Members considered the LGPS update that was scheduled for consideration at the Pensions Committee meeting of 4 July 2016 and was attached as an appendix to the report.

The report provided an update on the preparations for the 2016 Triennial Valuation and the proposed approach to setting employer contribution schedules. It also raises awareness of a number of current issues facing the LGPS. Yvonne Caddock, Principle Pension Officer, informed the Board that the effective date of the actuarial valuation was 31 March 2016. The principal aim of the process was to monitor assets against the current value of the liability of members' pension benefits earned to date, followed by a review of the employers' contribution rates payable for the financial period 1 April 2017 to 31 March 2020. The review took account of the Funding Strategy assumptions and principles adopted by the Fund, including any Deficit Recovery strategy, Investment Strategy and individual employer characteristics. There had been a statutory requirement for employers to be consulted as part of the valuation process.

With regard to Academies it was highlighted that the 2016 Budget had seen the Chancellor confirm his plans that all authority maintained schools would be required to become academies by 2022. However, following opposition to the proposal the plan had now been modified, and there will not be legislation to bring about a blanket conversion of all schools by 2022.

It was further reported that officers would keep Members appraised on progress of the valuation until final certification of the Rates and Adjustment Certificate on 31 March 2017.

**Resolved – That the reports be noted.**

41 **CIPFA KNOWLEDGE & SKILLS FRAMEWORK**

A report of the Director of Pensions recommended that the Board approved adoption of the CIPFA Knowledge & Skills Framework in respect of Pension Board members.

It was reported that in accordance with the Pensions Act 2004 and Public Service Pensions Act 2013 every member of the Wirral Pension Board must be conversant with key areas of knowledge and understanding of the law relating to pensions with particular reference to the key areas outlined in the report.

CIPFA had issued a publication in respect of local pension board knowledge and skills. This had been discussed at the meeting in October 2015. The publication provided a useful overview of knowledge areas which were set out in appendix 1 of the report.

**Resolved - That the Board adopts the CIPFA Knowledge & Skills Framework for Board members.**

42 **PENSION REGULATOR SURVEY OF PUBLIC SERVICE PENSION SCHEMES**

Members gave consideration to a report of the Principal Pensions Officer that presented the Board with the results of the Pension Regulator’s (TPR) survey on the Governance and Administration of Public Sector Pension Schemes which had been issued on 10 December 2015.

The Public Service Pensions Act 2013 had introduced a number of changes for public service pension schemes, which provided pensions for the armed forces, local government, NHS, teachers, civil servants, the police force, fire-fighters and the judiciary.

In the summer of 2015, TPR had undertaken a survey to establish how these schemes have implemented the additional administration and governance requirements and the standard to which they are being operated.
The rationale was that a well administered Scheme provided members with high standards of service. It would also help the Government and public to have confidence that the cost of public service pensions were correctly accounted for, affordable and fair to all stakeholders.

The results of the survey could be accessed at the following link

http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2015.pdf

The Chair noted the Fund's reliance on scheme employers to provide accurate and timely data to enable the Fund to comply with its statutory duties and the TPR code of practice. Officers informed the Board of its intent to update the Pension Administration Strategy in order to introduce more stringent requirements and penalties for non-compliance with operational/ data requirements, documenting the circumstances in which the Fund will alert TPR of an employer breach.

**Resolved – That the report be noted.**

43 **DRAFT PENSION BOARD REVIEW AND WORK PLAN 2016-17**

Members considered a report of the Independent Chair of the Pension Board that had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its members during its first year. The first year of the Board had been taken as from 15 May 2015 when Board members had been selected to 30 April 2016.

The report gave details of the establishment of the Board, Training and Development and matters that had been considered at Board meetings. The Independent Chair also highlighted that the Board did not during its first year make any formal recommendations to the Scheme Manager (the Pensions Committee of Wirral MBC). The Board, however, had made an important resolution relating to the future Governance of the Investments of the Fund at its meeting held on 14 April 2016. Board members (the Independent Chair, Employee and Employer representatives) had jointly prepared and unanimously agreed a resolution at this meeting that was strongly supportive of the overall approach of the Northern Pool in their February 2016 submission to the DCLG and the Memorandum of Understanding between the Administering Authorities of the Merseyside, Greater Manchester and West Yorkshire Funds of 19 February 2016.

The report also provided details of the proposed Pension Board work plan 2016-17. The support to the Board was also acknowledged and the

Independent Chair recorded his thanks to the officers of Merseyside Pension Fund and the Strategic Director of Transformation and Resources. The Independent Chair also indicated that he would be attending the next meeting of the Pensions Committee to be held on 19 September, 2016.

**Resolved - That;**

1 **the Board receives and approves the Pension Board Review 2015-16.**

2 **the Board approves the proposed Work Plan 2016-17.**

44 **MERSEYSIDE PENSION FUND - COMPLIANCE STATEMENT - TPR CODE OF PRACTICE NO.14**

Members of the Board gave consideration to a report of the Principal Pensions Officer provided an update on the intended approach to stress test Merseyside Pension Fund's compliance against the Pension Regulator (TPR) Code of Practice No.14, entitled "Governance and Administration of Public Service Schemes.

The appendix to the report, the Compliance Statement, 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).

Members were reminded that the Local Pension Board's role was to assist in the good governance of the scheme and to highlight to Pensions Committee any areas that required improvement in complying with statutory legislation and standards set by TPR.

The Pension Board had discussed the content and impact of TPR Code of Practice, applicable from April 2015, at its inaugural meeting of 14 July 2015. The Code of Practice set out the legal requirements for public service pension schemes, standards of conduct and practice expected of those who exercise functions in relation to those requirements.

Work was currently in progress to establish a model for officers to undertake a self-assessment against the 90 key definitive elements across the Code - with the statements of compliance substantiated by relevant documentary evidence. Any failings would outline the suggested corrective action within a targeted timeframe and any areas identified for improvement would require a statement of commitment.

The report noted that following completion by the officer, the Board might wish to consider commissioning an advisor to provide an independent review of the exercise - to demonstrate objectivity and mitigate any preconceived assumptions as to the level of compliance within the administration and governance function.

The Fund had to date undertaken a high level assessment of its compliance against the Code, using the RAG rating system, attached as Appendix 1 to the report. Yvonne Caddock, Principal Pensions Officer reported that there were no areas of significant concern. Areas with an amber rating reflected development work being undertaken to further tighten controls and ensure a robust monitoring framework.

Yvonne Caddock also indicated that officers would keep the Pension Board apprised of progress achieved and requested feedback on the evaluation of both the Statements of Compliance and Commitment, including the review process which would be embedded within the compliance model.

Geoff Broadhead noted that it may be effective and best use of resources to seek an independent review utilising a scheme employer's Audit Section before officers undertake a full review of the specific elements of the code. The Chair concluded that officers would consider this useful suggestion when progressing the project.

**Resolved – That the report be noted.**

45 **POOLING UPDATE**

Members of the Board gave consideration to a report of the Director of Pensions that updated the Pension Board with the progress made in developing pooling arrangements in relation to the Northern Pool and Government's requirement for the Local Government Pension Scheme to pool investments to deliver significantly reduced costs while maintaining overall investment performance.

The appendix to the report, appendix 2, 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 report be noted.**

46 **IMWP MINUTES - 19/04/16**

Members considered the IMWP minutes approved by Pension Committee since the last Pension Board meeting and were attached as exempt appendices to the report.

The appendix to the report, the minutes of IMWP on 19 April 2016, 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 report be noted.**

47 **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.**

48 **MERSEYSIDE PENSION FUND - COMPLIANCE STATEMENT - TPR CODE OF PRACTICE NO.14 - EXEMPT APPENDICES**

The appendices to the report on MPF – Compliance Statement - TPR Code of Practice No.14 were exempt by virtue of paragraph 3.

49 **POOLING UPDATE - EXEMPT APPENDIX**

The appendix to the report on Pooling Update was exempt by virtue of paragraph 3.

50 **IMWP MINUTES - 19/04/16 - EXEMPT APPENDIX**

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

# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **AUDIT FINDINGS REPORT & DRAFT ANNUAL REPORT AND ACCOUNTS - MERSEYSIDE PENSION FUND** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present the Board with the Annual Report of Merseyside Pension Fund for 2015/16, which contains the audited statement of accounts, and our response to the Audit Findings Report from Grant Thornton.

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

1.3 Grant Thornton's report expresses a positive outcome from their audit of the accounts and refers to the accounts being prepared to a good standard.

### 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.

2.3 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2016 in accordance with prescribed guidance.

2.4 Grant Thornton has completed its audit of the accounts and presented their Audit Findings Report to Pensions Committee on 22 September.

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

2.6 There was one mis-classification of £24.8 million, which was categorised as a pooled investment vehicle with the underlying asset class as a corporate bond instead of a pooled investment vehicle with the underlying asset class as equities. This has no effect on the net assets of the Fund as at 31 March 2016.

2.7 All suggested disclosure changes have been amended.

2.8 Within the audit findings against significant risks section all issues arising have been resolved.

2.9 The recommendation contained within the Appendix of the Grant Thornton report has been agreed by Fund Officers; MPF continues to work with our pooling partners and is agreeing enhanced monitoring procedures which include the review of the financial statements and audit reports.

2.10 The Section 151 Officer has prepared a Letter of Representation on behalf of the Committee which gives assurances to the Auditor on various aspects relating to the Pension Fund.

2.11 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 2016. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2016.

## 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 the Board notes the report.

## 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 is first considered by Pensions Committee, and then by Audit and Risk Management Committee.

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## APPENDICES

1. Audit Findings Report.
2. Annual Report
3. Letter of Representation

## BACKGROUND PAPERS/REFERENCE MATERIAL

## BRIEFING NOTES HISTORY

| Briefing Note | Date |
|---|---|

| | |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
|---|---|
| | |

Grant Thornton

# The Audit Findings for Merseyside Pension Fund

**Year ended 31 March 2016**

5 September 2016



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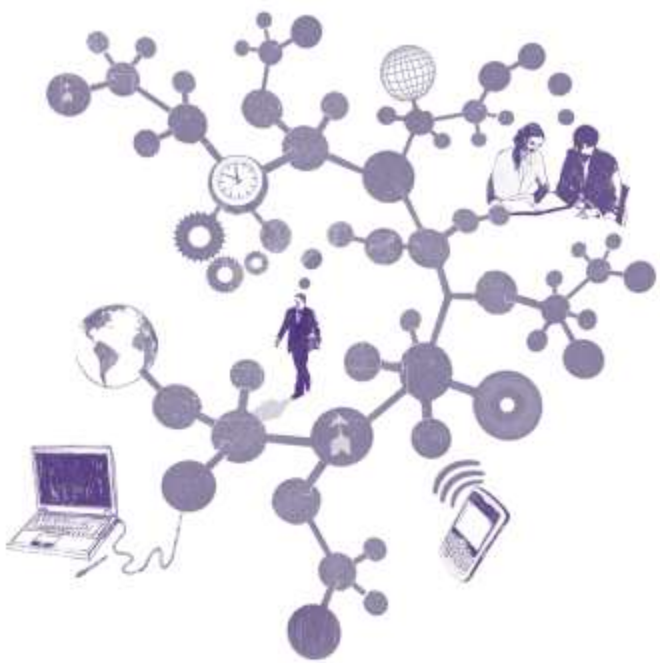

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Audit and Risk Management Committee
Wirral Council
Wallasey Town Hall
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5 September 2016

Dear Members

**Audit Findings for Merseyside Pension Fund for the year ending 31 March 2016**



This 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), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management of the Pension Fund and the Pensions Committee.

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

Engagement Lead

# Contents

# **Section 1:** Executive summary

## Purpose of this report

This report highlights the key issues affecting the results of Merseyside Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

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

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

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

- review of the final version of the financial statements and annual report;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work. Additional working papers were provided where requested during the course of the audit.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

## Key audit and financial reporting issues

**Financial statements opinion**

We have not identified any adjustments affecting the Fund's reported financial position. The audited financial statements for the year ended 31 March 2016 show net assets available for benefits during the year of £6,849,756k. We have agreed a small number of amendments to improve the overall presentation of the financial statements and to ensure consistency within the Pension Fund Annual Report.

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

- the draft accounts were prepared to a good standard and were available for audit in accordance with agree timescales and the national deadlines
- working papers were made available at the commencement of the audit and officers responded to requests for additional information during the audit on a timely basis.

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

Further details are set out in section two of this report.

## Controls

**Roles and responsibilities**

The Fund'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 Fund.

**Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

## The way forward

Matters arising from the financial statements audit have been discussed with the Director of Pensions and Group Accountant.

As the national deadlines for the preparation and audit of Local Government Accounts are coming forward, the fund should look to agree earlier reporting deadlines for 2016/17, including changes to the committee timetables which will be required to support this.

The fund made significant progress in preparing accounts to an earlier timetable in 2016, in anticipation of earlier audit and reporting deadlines in future years. We will continue to work with the fund to agree earlier audit and reporting timescales for 2017.

We have made one recommendation, which is set out in the action plan at Appendix A. The recommendation has been discussed and agreed with the Group Accountant and the finance team.

## Acknowledgement

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**
**September 2016**

# **Section 2:** Audit findings



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This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £66,000k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £3,300k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.



| Balance/transaction/disclosure | Explanation |
|---|---|
| Management Remuneration | Due to public interest in these disclosures and the statutory requirement for them to be made. |
| Audit Fees | This is a statutory requirement and a requirement of ethical and auditing standards. |
| Related party transactions | Due to public interest in these disclosures. |

# 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. | **The revenue cycle includes fraudulent transactions**<br>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Merseyside Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Wirral Council as the administering authority, mean that all forms of fraud are seen as unacceptable. | Our audit work has not identified any material issues in respect of revenue recognition. |
| 2. | **Management over-ride of controls**<br>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. | Summary of work performed:<br>• review of entity controls<br>• testing of journal entries<br>• review of accounting estimates, judgements and decisions made by management | Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.<br>We set out later in this section of the report our work and findings on key accounting estimates and judgements. |

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 3. | **Level 3 Investments – Valuation is incorrect**<br><br>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 Investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. | • We gained an understanding of the transaction processes including a review of supporting documentation.<br>• We carried out walkthrough tests of the controls identified in the processes.<br>• We tested a sample of investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. We then reconciled those values to the values at 31st March with reference to known movements in the intervening period.<br>• We reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. | Our audit work has not identified any material issues in respect of the valuation of Level 3 Investments.<br><br>Our testing identified one Level 3 Investment (value £6.6m in the Net Assets Statement) where the audit opinion on the financial statements included a qualification of the audit opinion due to two matters and an emphasis of matter paragraph. The nature of the issues resulting in the qualification do not directly impact on the valuation of this investment.<br><br>Management have considered the nature of the qualification and emphasis of matter in terms of their risk assessment for this investment, and concluded that the matters raised do not have a significant impact on this investment. |

# 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 Income** | Investment activity not valid. (Occurrence)<br><br>Investment income not accurate. (Accuracy) | • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.<br>• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.<br>• Tested a sample of investment income to ensure it is appropriate<br>• Completed a predictive analytical review for different types of investments<br>• For direct property investments rationalised income against a list of properties for expected rental income. | Our audit work has not identified any significant issues in relation to the risk identified. |
| **Investment purchases and sales** | Investment activity not valid. (Occurrence)<br><br>Investment valuation not correct. (Valuation gross or net) | • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.<br>• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.<br>• Tested a sample of purchases and sales to ensure they are appropriate. | Our audit work has not identified any significant issues in relation to the risk identified.<br>Our testing did identify one new investment (value £25m) which had not been recorded on the Openair Internal Investment Ledger. |

# 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 performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.<br>• We have tested controls over occurrence, completeness and accuracy of contributions.<br>• Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.<br>• Tested a sample of year end aggregate contributions income balances at employer level to year end employer certificates. | Our audit work has not identified any significant issues in relation to the risk identified |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Benefits payable** | Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence) | • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.<br>• Controls testing over, completeness, accuracy and occurrence of benefit payments.<br>• Tested a sample of individual lump sums and pensions in payment by reference to member files.<br>• Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. | 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 performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.<br>• Controls testing over annual/monthly reconciliations and verifications with individual members.<br>• Sample tested changes to member data made during the year to source documentation. | Our audit work has not identified any significant issues in relation to the risk identified. |

# Accounting policies, estimates and 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 Fund'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.<br>• Income from equities is accounted for when the related investment is quoted ex 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) |
| **Judgements and estimates** | Key estimates and judgements include:<br>• 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.<br>• 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.<br>• The potential financial statement impact of different assumptions is adequately disclosed in Note 15 to the accounts. | ● (Green) |
| **Going concern** | Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. | We are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. | ● (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. The Fund's accounting policies are appropriate and consistent with previous years. | ● (Green) |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from regulators (Red)
- ● Accounting policy appropriate but scope for improved disclosure (Amber)
- ● Accounting policy appropriate and disclosures sufficient (Green)

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 and Pensions Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | **Matters in relation to related parties** | • From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3. | **Matters in relation to laws and regulations** | • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. | **Written representations** | • We have requested a letter of representation from the Fund.<br>• We have requested management representation to confirm ownership of The Fort. |
| 5. | **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.<br>• We have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding. |
| 6. | **Disclosures** | • Our review found no material omissions in the financial statements. |
| 7. | **Matters on which we report by exception** | • We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report. |

# 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 Investment Income, Contributions, Benefits Payable, and Member Data as set out on pages 9 – 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Risk Management Committee.

# Misclassifications 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 | Disclosure | Various | Notes to the accounts | We have agreed a number of small amendments to the notes to the accounts to correct minor errors and improve the overall disclosure within the financial statements. In particular, we requested that management improve the clarity of the narrative explanation for the reanalysis of investment management expenses in note 11b. |
| 2 | Misclassification | 24,757 | Note 13a | A new investment had been incorrectly classified in note 13a. The description for £24,757k new investment has been amended from 'Overseas Managed Funds - Corporate Bonds' to 'Overseas Managed Funds – Equities' to provide a more accurate description of the holding. |

# **Section 3:** Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

| | Proposed fee per Audit Plan £ | Actual fees £ |
|---|---|---|
| Pension fund scale fee | 36,882 | 36,882 |
| Agreed fee variation – IAS 19 | 2,180 | 2,180 |
| **Total audit fees (excluding VAT)** | **39,062** | **39,062** |

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies with the PSAA regime and is consistent with that requested in prior years.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Limited (PSAA)

### Fees for other services

| Service | Fees £ |
|---|---|
| **Audit related services:**<br>• None | **Nil** |
| **Non-audit services** | **Nil** |

### 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 Auditing Practices Board'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

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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

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

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

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

# Appendices



# Appendix A: Action plan

## Priority

**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---|---|---|---|---|
| 1 | The fund should ensure that it has processes in place to review the audited financial statements and auditor reports on level three investments, and to consider the implications of any qualifications or emphasis of matter paragraphs on the fund's investment. | High | Fund Officers continue to work with our pooling partners and are agreeing enhanced monitoring procedures which include the review of the financial statements and audit reports. | Investment Managers<br>March 2017 |

# Appendix B: Audit opinion

**We anticipate we will provide the Fund with an unmodified audit report**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL METROPOLITAN BOROUGH COUNCIL**

We have audited the pension fund financial statements of Wirral Metropolitan Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 (Section 151 Officer) and auditor**
As explained more fully in the Statement of the Head of Financial Services (Section 151 Officer)'s Responsibilities, the Head of Financial Services (Section 151 Officer) is responsible for the preparation of the Authority's Statement of Accounts, which includes 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 2015/16, which 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 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 (Section 151 Officer); and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, 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 2015/16 and applicable law.

**Opinion on other matters**
In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited 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 2016

# Appendix C: Proposed audit opinion on the annual report

**We anticipate we will provide the Fund with an unmodified audit report**

**Independent auditor's report to the members of Wirral Metropolitan Borough Council on the consistency of the pension fund financial statements included in the Merseyside Pension Fund annual report**

The accompanying Merseyside Pension Fund financial statements of Wirral Metropolitan Borough Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated X September 2016 . The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(3) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 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.

**Head of Financial Services (Section 151 Officer)'s responsibilities for the pension fund financial statements in the pension fund annual report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.



**Auditor's responsibility**

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the Merseyside Pension Fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Merseyside Pension Fund financial statements. The other information consists of Management Structure; Chair's Introduction; Management Report; Pension Board Report; Membership Statistics; Scheme Administration Report; Investment Report; and Financial Performance.

**Opinion**

In our opinion, the Merseyside Pension Fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

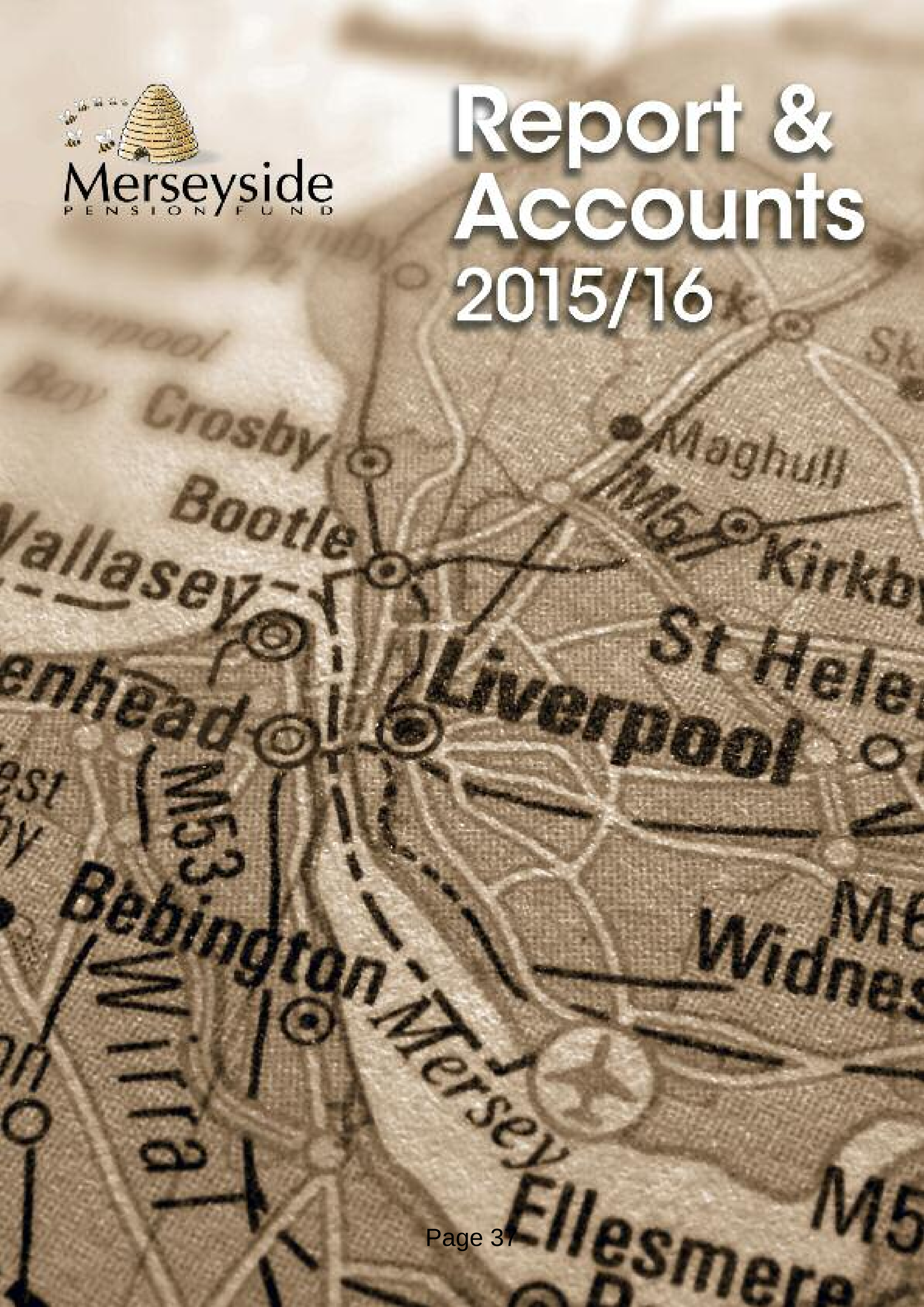
Fiona Blatcher
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

X September 2016

Merseyside
PENSION FUND

# Report & Accounts 2015/16



# Contents

# Management Structure

## 1. Pension Fund Management Committee

**Chair:**

| | |
|---|---|
| Cllr P Doughty | **Wirral** |

**Vice Chair:**

| | |
|---|---|
| Cllr A McLachlan | **Wirral** |
| | |
| Cllr P Cleary | **Wirral** |
| Cllr G Davies | **Wirral** |
| Cllr K Hodson | **Wirral** |
| Cllr T Johnson | **Wirral** |
| Cllr A Jones | **Wirral** |
| Cllr B Kenny | **Wirral** |
| Cllr C Povall | **Wirral** |
| Cllr GCJ Watt | **Wirral** |
| Cllr W Weightman | **Knowsley** |
| Cllr N Crofts | **Liverpool** |
| Cllr P Lappin | **Sefton** |
| Cllr J Fulham | **St Helens** |

### Employee Representatives (Non-voting)

| | |
|---|---|
| Mr P Cleary | **Unison** |
| Mr B Ellis | **Unison** |
| Mr D Walsh | **Unite** |

### Officers of the Fund

| | |
|---|---|
| Joe Blott | **Strategic Director Transformation & Resources** |
| Peter Wallach | **Director of Pensions** |
| Yvonne Caddock | **Principal Pension Officer** |
| Surjit Tour | **Head of Legal & Democratic Services** |
| Colin Hughes | **Group Solicitor** |

## 2. Advisors to Investment Monitoring Working Party

Strategic Director Transformation & Resources
Director of Pensions
Senior Investment Manager
Aon Hewitt
Noel Mills
Rohan Worrall

## 3. Advisors to Governance and Risk Working Party

Strategic Director Transformation & Resources
Director of Pensions
Principal Pension Officer

## 4. Others

**Auditor**
Grant Thornton

**Bankers**
Lloyds Banking Group

**Consultant Actuary**
Mercer HR Consulting

**Strategic Investment Consultant**
Aon Hewitt

**Custodian of Assets**
Northern Trust

**Responsible Investment Advisors**
Pensions and Investment Research Consultants Ltd

**Property Advisors**
C B Richard Ellis

**Property Managers**
C B Richard Ellis

**Property Valuers**
Savills

**Performance Measurement**
The WM Company

**Solicitor**
Wirral Council

**AVC Providers**
Equitable Life Assurance Society
Standard Life
Prudential

# Chair's Introduction

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2016. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months as well as providing general information regarding the pension scheme.

**P Doughty**

### The Overall Aim of the Fund

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liability profile. The Pensions Committee reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisors, to ensure that they remain appropriate.

### Investment performance

Looking back on the twelve months to March 2016, a great deal of change has occurred politically and in financial markets.

The period under review commenced with Greece as the overriding theme with a backdrop of soaring then collapsing Chinese A shares and volatility in sovereign bond markets. Negotiations between the Greek government, led by the anti-austerity Syriza party, and European leaders lurched, on a near daily basis, from optimism to pessimism culminating in a surprise referendum on the creditors' Greek bailout proposals. Twelve months on, Grexit has been replaced by Brexit.

The summer proved to be particularly volatile for global equities. The trigger for steep falls in markets in August was the decision by Chinese authorities to devalue the renminbi. With two of the other three BRIC nations, Brazil and Russia, already in recession, investors panicked and equities fell sharply, emerging markets in particular. Brent crude also fell 24% to less than $50 per barrel. However, with the US Federal Reserve hanging fire on a decision to raise interest rates, markets rallied into the year end.

December saw the first rate hike by the US Federal Reserve since June 2006 with rates increasing to 0.5%. Meanwhile, the European Central Bank cut the official deposit rate by 0.10% to bring it to -0.30%. It appears that we are set for a period of interest rate divergence. Brent crude fell a further 23% ending the year at $37 per barrel.

Volatility continued into the first quarter of 2016 but steadied as economic fears of a slowdown in China and the US abated. For the year to March, equity markets were flat to modestly lower whilst bond markets were slightly higher. More detail is provided in the Investment Report.

Against this backdrop, the Fund returned 1.2% compared to its bespoke benchmark return of -0.4%.

As anticipated last year, volatility in financial markets is picking up and we have positioned the Fund cautiously. Nonetheless, it is helpful to bear in mind that local authority Pension funds invest over the long-term to pay benefits in forty to fifty years' time and it is imperative that we maintain this long-term perspective in our investment strategy.

Further information on the management of the Fund, distribution of assets and performance is provided later in this report.

### Actuarial Valuation

The next triennial valuation is at 31 March this year. At the last triennial valuation, assets stood at £5.8bn with liabilities calculated to be nearly £7.7bn, giving a whole fund funding position of 76%. The interim position at March 2016 suggests little change to the funding position. Despite the increase in assets to nearly £7bn, quantitative easing by the government has been unhelpful to the valuation of liabilities and our funding level is still estimated to be around 76%.

### Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the new Scheme. We were very pleased that the Fund collected a further award from aiCIO magazine; Best Public Pension Fund below £15bn.

With increasing numbers of members affected by early retirement and redundancy programmes by employers, we have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, pensioners and deferred members. The Fund's websites continue to be updated regularly and we are seeing increasing use of the Employers' website.

The Annual Employers' Conference held at Aintree Racecourse, in November 2015, was again well attended and featured speakers from the Fund's actuary and officers of the Fund.

### Past Changes and the Future

The Pension Board, introduced last year, is now fully established. Details of its activities, reports and minutes of its meetings are available on the Wirral website.

Implementing the new career average Scheme continues to be a significant project. It has required significant changes to systems, policies and procedures and we continue to look for and implement efficiencies in the way in which we work.

The 'Investment Reform Criteria and Guidance' consultation, known more familiarly as 'Pooling', was launched by the government in November. In the July Budget 2015, the Chancellor announced the government's intention to work with the Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Proposals for pooling will be assessed against four principal criteria:

- Asset pools with at least £25bn of Scheme assets
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity to invest in infrastructure

The Fund has announced that it is working with Greater Manchester Pension Fund and West Yorkshire Pension Fund to develop proposals. This will be a significant undertaking and the resources and costs required to deliver the changes required should not be under-estimated.

As ever, the continued success of the Fund depends on the combined efforts of all those concerned with its operation. In conclusion, I should like to thank the Committee, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

### Preparation of report

This Annual Report has been produced in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.

# Management Report

### Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Paul Doughty.

In 2015/16, the Committee comprised Councillors from the Wirral Labour group (6), Conservatives (3), Green Party (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton), an independent representative from the other employers and employee representatives (3). The Strategic Director Transformation and Resources and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Department of Communities and Local Government (DCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) provide further information on the Fund's investment philosophy and investment framework.

The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by an Investment Monitoring Working Party (IMWP). The IMWP meets at least six times a year to review investment strategy and to receive reports on investment activity undertaken in the prior period. The Working Party comprises representatives from the Pensions Committee, two independent advisors, Aon Hewitt and members of the in-house investment team.

Another of its important tasks is to monitor the performance of the Fund's external and internal investment managers, which is undertaken in conjunction with professional advisors and Fund officers. External and internal investment managers have been given specific benchmarks against which performance is measured and monitored quarterly. In addition, internal investment managers report to the Strategic Director Transformation & Resources through regular Fund Operating Group meetings and follow procedures laid down in an internal Compliance Manual.

With regard to its investment management activities, the Fund uses a combination of internal and external management and active and passive strategies across the various asset classes in which it invests. More comprehensive details of the Fund's investment managers, mandates and advisors are set out in its SIP.

Governance, pensions administration and policies, risk management and related matters are scrutinised by a Governance and Risk Working Party (GRWP) which meets twice yearly.

### Risk Management

The Fund's governance arrangements, set out in the preceding section, ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels.

The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal documents relating to risk management and control are the Fund's:

- Governance Policy
- Communications Policy
- Funding Strategy Statement
- Statement of Investment Principles
- Investment Monitoring Policy
- Health & Safety Policy

Copies of these documents are available from the Fund and are published on the Fund website at:
**https://mpfund.uk/risk**
In addition, the Fund maintains a risk register and a compliance manual for its employees.

These documents are all subject to regular scrutiny by Pensions Committee and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually by the Fund's external and internal auditors.

Additionally, and where applicable, the Fund adheres to the Administering Authority's constitution in managing its operations. Legal opinion and advice is provided by Wirral Council's legal team and from external sources where appropriate.

## Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allotted to them. It therefore seeks to appoint individuals who are both capable and experienced and provides/arranges training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Our training plan sets out how we intend the necessary pension finance knowledge and skills are to be acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Pensions Committee has designated the Strategic Director Transformation & Resources to be responsible for ensuring that policies and strategies are implemented.

## Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to and approved by Pensions Committee. The Fund develops its Pensions Committee members and officers through training and education using a variety of means. These include regular meetings, ad hoc seminars and conferences, bespoke training and a comprehensive website.

Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by regular working parties. The IMWP's include a minimum of two presentations and cover all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The GRWP's enable matters relating to other risks, governance and pensions administration to be covered in greater depth, as necessary.

This year, the Fund's direct property portfolio was identified as an area of development. Members received a presentation from one of the Fund's advisors on the operational management of the Fund's properties. In addition, investment pooling quickly became an area of interest and officers briefed Members on potential legal and operational structures.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed below.

The Fund is a member of the Local Authority Pension Fund Forum and the chair of the Pensions Committee is a member of the executive board, attending regular meetings dealing with all aspects of responsible investment.

The following training opportunities have been provided during the year.

| Month | Event |
|---|---|
| April | IMWP |
| May | NAPF LA Conference |
| June | IMWP |
| June | Pensions Committee |
| June | GRWP |
| September | IMWP |
| September | Pensions Committee |
| September | LGC Investment Summit |
| October | IMWP |
| October | LGE Fundamentals |
| October | Elected Member Educational Event |
| October | NAPF Annual Conference |
| November | IMWP |
| November | Pensions Committee |
| November | LGE Fundamentals |
| November | MPF Annual Employers' Conference |
| December | Annual LAPFF Conference |
| December | LGE Fundamentals |
| January | Pensions Committee |
| January | GRWP |
| January | Blackrock Seminar |
| March | LGC Investment Conference |
| February | Elected Member Educational Event |
| March | IMWP |
| March | Pensions Committee |

As the officer nominated by the Pensions Committee responsible for ensuring that the Fund's training policies and strategies are implemented, the Strategic Director of Transformation & Resources can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme, collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

# Pension Board Report

Local Pension Boards (LPB) have been established across the Local Government Pension Scheme to assist administering authorities in their role as managers of the Scheme.

## Statement of Purpose for the Wirral Local Pension Board

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pension Regulator in relation to the Scheme and;
- Ensure the effective and efficient governance and administration of Merseyside Pension Fund.
- Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Board does not have a conflict of interest.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than twice in any year. There is also the provision for special meetings to be convened at notice.

## Constitution/Management arrangements

The Pension Board consists of nine members and is constituted of:

- Four employer representatives: two nominated from Local/Police/Fire/Transport authorities or Parish Councils; one from Academies/Further/Higher Education bodies; one from Admitted bodies.
- Four scheme member representatives; two representing active members; two representing deferred and pensioner members.
- One independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board.

Additional information is included in the Board's Terms of Reference available on the Fund's website.

## Executive Summary

As required by the regulations, Wirral's Local Pension Board was established by 1 April 2015 and meetings were held on 14 July 2015 and 13 October 2015 (see below). In addition, a rigorous training programme was undertaken involving internal and external training as detailed in the table below. A number of Board members have attended Working Parties to gain greater familiarity with the activities and procedures of Pensions Committee.

Work plan 14 July meeting:

1. Appointment of Chair
2. Review of Pension Board policies
3. Business Planning
4. Presentation of Grant Thornton survey - Stronger Futures: Development of the LGPS
5. Policy on Compliance with the Pensions Regulator
6. Training Programme

Work plan 13 October meeting:

1. LGPS update
2. Review of MPF's Annual Report & Accounts
3. Gifts & Hospitality Policy agreed
4. Pension Board Work Plan
5. CIPFA's Knowledge & Skills Framework for Pension Boards
6. Review of IMWP/GRWP minutes

A work plan for 2016/17 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies. Not all board meeting dates have yet been set.

## Pension Board Work Plan 2016-17

| Agenda Item | 14/4/16 | 28/6/16 | 11/10/16 | 2017 |
|---|---|---|---|---|
| LGPS update | • | • | • | • |
| Administration KPI report | • | • | • | • |
| Pooling update | • | • | | |
| Audit Plan | • | | | |
| LGPS Investment Regulations consultation | • | | | |
| The Pensions Regulator Breaches policy | • | | | |
| Member Development Programme | • | | | • |
| Pension Board Development Programme | • | | | • |
| IMWP/GRWP minutes | • | • | • | • |
| Pension Board Annual Report | | | • | |
| Investment Performance | | | • | |
| Audit Findings Report | | | • | |
| Annual Report & Accounts | | | • | |
| Review of Actuarial Valuation | | | | • |
| Fund discretions | | | | • |
| AVC arrangements | | | | • |
| tPR self-assessment | | | | • |

## Attendance & Training Record

| ATTENDANCE RECORD 2015-16 | PENSION REGULATOR TOOLKIT E-LEARNER | PENSION REGULATOR PUBLIC SECTOR | INVESTMENT MANAGER CERTIFICATE | MPF TRAINING DAY | MPF ANNUAL CONFERENCE | MPF ANNUAL CONFERENCE | PENSION BOARD MEETINGS | | | IMWP | | GRWP | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 29 Sep | 14 Oct | 26 Nov | 14 Jul | 13 Oct | 14 Apr | 17 Sep | 10 Mar | 30 Jun | 28 Jan |
| John Raisin (Chair) | • | • | • | • | | • | • | • | • | • | | | • |
| Kerry Beirne | | • | | • | • | • | • | • | • | | • | | • |
| Geoff Broadhead | | • | | • | | • | • | • | • | | | | |
| Robin Dawson | | | | • | • | • | | • | • | | | | |
| Phil Goodwin | | | | | • | • | • | • | • | | | | |
| Mike Hornby | | | | • | • | | • | | • | | | | |
| Pat Moloney | | • | | • | | • | • | • | • | | | • | |
| Donna Ridland | • | • | | | • | • | • | • | | • | | | |
| Paul Wiggins | • | • | | • | | • | • | • | • | | | | |

## Costs of Operation

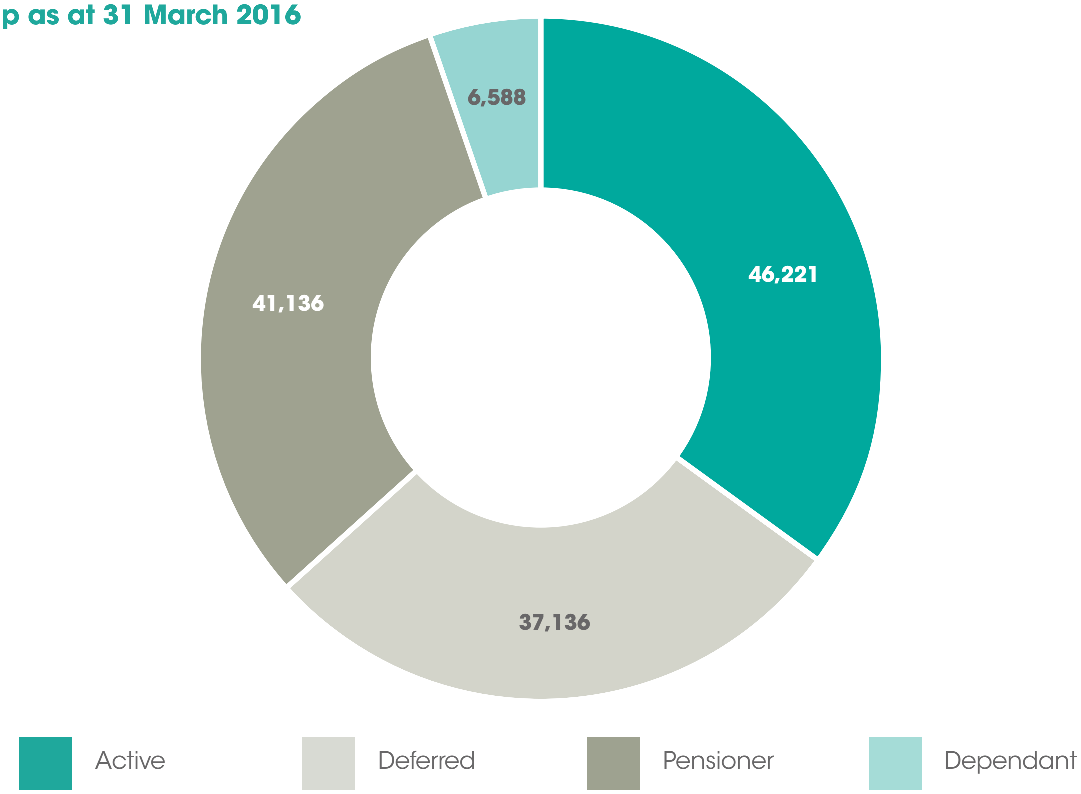
| | |
|---|---|
| Training | £10,584 |
| Transport | £2,088 |
| Allowances | £12,772 |
| Other | £1,487 |
| **Total** | **£26,931** |

There have been no matters of concern to raise with Wirral, the Administering Authority.

A detailed review of the activities of the Pension Board was undertaken by the Independent Chair and will be reported to Pensions Committee on 19 September 2016.

# Membership Statistics

## Membership as at 31 March 2016




## Number of Members by Age Band

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Active | | | | 345 | 1,798 | 2,963 | 3,729 | 4,343 | 5,479 | 7,655 | 8,875 |
| Deferred | | | | 7 | 333 | 2,015 | 3,435 | 3,606 | 4,783 | 6,756 | 8,438 |
| Pensioner | | | | | | 2 | 3 | 8 | 64 | 293 | 684 |
| Dependant | 1 | 17 | 46 | 146 | 64 | 10 | 11 | 22 | 27 | 84 | 187 |

| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Active | 6,925 | 3,288 | 687 | 134 | | | | | | | **46,221** |
| Deferred | 6,635 | 1,025 | 88 | 15 | | | | | | | **37,136** |
| Pensioner | 2,955 | 8,804 | 10,595 | 6,961 | 5,058 | 3,303 | 1,684 | 602 | 105 | 15 | **41,136** |
| Dependant | 300 | 461 | 707 | 860 | 1,015 | 1,153 | 893 | 452 | 112 | 20 | **6,588** |
| | | | | | | | | | | **Total** | **131,081** |

## Key Membership Statistics 2012 - 2016

| Year | Active | Deferred | Pensioner | Dependant | Total |
|---|---|---|---|---|---|
| 31 March 2016 | 46,221 | 37,136 | 41,136 | 6,588 | **131,081** |
| 31 March 2015 | 45,417 | 36,237 | 39,918 | 6,682 | **128,254** |
| 31 March 2014 | 45,583 | 35,786 | 39,094 | 6,725 | **127,188** |
| 31 March 2013 | 44,707 | 34,481 | 37,992 | 6,761 | **123,941** |
| 31 March 2012 | 45,521 | 32,912 | 37,314 | 6,804 | **122,551** |

# Scheme Administration Report

Merseyside Pension Fund operates the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers and fire fighters, of the local authorities within the Merseyside area. It also operates the Scheme for support staff employed in Academies and members of other organisations, which have made admission agreements with the Fund.

Over the reporting period the Fund has experienced an increase to its employer base, as service delivery transformations and outsourced local government contracts are becoming more prevalent for local authorities - due to the increasing pressures on public sector expenditure. In addition, the number of schools choosing to convert to Academy status has continued to increase following the introduction of the 2010 Academies Act.

Furthermore, the increase in the number of third party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer to the process and provision of data.

A list of the participating employers is shown at **Appendix A.**

The Scheme is a public service pension scheme regulated by statute through the Department for Communities and Local Government (DCLG). It is a contributory defined benefit scheme and exempt approved for tax purposes. The Scheme was formerly contracted out of the additional State Pension until the introduction of the new single-tier State Pension on 6 April 2016, which as a matter of course, resulted in the ending of the Scheme's contracted out status.

### What does the 'end of contracting out' mean for employers and active members?

The headline impact resulting from the ending of contracting out status is the increased National Insurance costs for both employers and members of 3.4% and 1.4% respectively on earnings between certain thresholds.

However, in regards Scheme administration, this is not solely a cost pressure in communicating the reduction of 'take home pay' to active Scheme members and increased payroll costs to employers; there are other administrative implications which could affect Scheme benefits and liabilities.

The most significant impact on the Scheme's administration is the requirement to complete a Guaranteed Minimum Pension (GMP) reconciliation project by December 2018. This is a specialised, resource intensive and time-consuming process of comparing Scheme records with HM Revenue & Customs (HMRC) records to resolve any discrepancies. Failure to undertake this project could lead to additional liabilities if the Fund cannot reconcile its records against HMRC's recorded GMPs for Scheme members.

There are no plans to change the benefits that the LGPS provides as a result of the introduction of the new State Pension and the ending of contracting out.

### Development of the Scheme

Since 1922 the Local Government Pension Scheme has developed from a Scheme which just provided pensions for officers only, to today's Scheme which provides pensions and lump sums for all members, spouses, civil and cohabiting partners, children's pensions including ill health, redundancy and death cover.

Quite clearly it is a comprehensive scheme and yet, through the co-operation of the government, Scheme Advisory Board, employer and employee representatives, the Scheme is constantly changing and adapting to modern day needs and demands.

### Scheme Reform - Transition to LGPS 2014

Since 2001 there have been national concerns surrounding the rising costs of public service pension provision and the sustainability of these schemes.

This has been largely due to a combination of people living longer and drawing pensions for much longer than originally anticipated, compounded by the volatility in financial markets.

Consequently, the government embarked upon a stock-take review of the LGPS to deliver an affordable scheme to the taxpayer that focussed on the employment trends and changing pension needs of low paid part time employees. This review resulted in a number of Scheme revisions; the primary intention was to alleviate cost pressures with the most significant changes taking effect from 2008, addressing the value of benefits and a rebalance of the pension cost between employers and members.

A new accrual rate was introduced which resulted in existing members having mixed benefit structures based on an annual pension of 1/80th of final salary and automatic lump sum prior to April 2008 and thereafter an annual pension of 1/60th of final salary with a lump sum by commutation only.

However, continued improvements in life expectancy and escalating costs of public sector pension provision led to Lord Hutton's 'grass roots review' with a view to how future pension provision could be made affordable in the long term and fair to members and all stakeholders.

# Scheme Administration Report

Lord Hutton's report was published on 10 March 2011 and made a number of recommendations about the future design of public service pension schemes. As a result the government set out to future proof the LGPS, along with other public service schemes, to ensure the cost of providing pensions is sustainable for future generations.

### LGPS 2014

The position of the previous coalition government was that public service pension schemes, including the LGPS should remain the very best available, providing a defined benefit pension entitlement for all employees. Following in depth consultation with the unions and the LGA a new overarching benefit structure was delivered across the public sector.

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect being a career average revalued earnings (CARE) scheme and replaced the final salary scheme going forward.

The LGPS now:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49 of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.

Additionally, protection is given to members who were contributing prior to 1 April 2014 including the following key provisions:

- preserve member benefits accrued under the former LGPS regulations
- retain the final salary benefits and normal pension age of 65 in respect of pre-2014 membership
- provide an 'underpin' for people born before 1 April 1957 to ensure that they do not suffer any detrimental loss from the introduction of the new Scheme
- carry forward the member protections under the '85 Year Rule' for voluntary retirement from age 60
- ability for employers to switch on the '85 Year Rule' in regard a member's benefits if they voluntary retire between age 55-60.

### Governance Changes

The Public Service Pensions Act 2013 and the LGPS Governance Regulations 2015 introduced the following provisions:

- local pension boards to assist each Administering Authority with ensuring compliance and the effective governance and administration of the fund
- the establishment of a national Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards
- the extension of the work of the Pension Regulator (TPR) to the LGPS
- an employer cost capping regime

The objective of this strengthened governance framework is to support sound decision making and increase the transparency of the administering authorities accountability for the management and stewardship of the Scheme.

### The Local Pension Board

The regulations recognise differing local arrangements for the management of LGPS Funds and are not overly prescriptive - permitting flexibility around the structure of local pension boards.

The Pension Board does not have quasi-trustee status and is not a decision making body, but works with the Administering Authority to help ensure compliance with its statutory responsibilities in the administration and management of the Scheme.

Given the existence of the Pensions Committee it is important that there is clarity of roles and responsibilities between the two functions and it is crucial that the Pension Board delivers visible improvements in Fund governance.

Details on the representation of both Pensions Committee and the Pension Board can be accessed from the Fund's website at the following link:
**http://mpfund.uk/fund-gov**

## The Scheme Advisory Board

The purpose of the Scheme Advisory Board (SAB) is to be both reactive and proactive in encouraging and coordinating best practice and transparency throughout LGPS funds. The SAB also provides advice to the Secretary of State on the desirability of changes to the Scheme, while also assisting funds themselves on their effective and efficient management and administration.

A key work stream of the SAB is to produce Key Performance Indicators (KPIs) to benchmark funds in ensuring effective governance and administration. As part of a pilot, the Fund undertook a self-assessment exercise against the suggested performance measurements and provided general feedback to the SAB. It is expected that the KPIs will be implemented across the LGPS as part of the valuation process to assess and support funds accordingly.

## Key Legislative Change

The main endeavour amongst the Scheme stakeholders is to strive to meet the government's requirement to deliver an affordable, cost effective, sustainable Scheme taking account of developments across the pension industry.

To achieve this outcome the DCLG introduced specific amendments to the LGPS regulatory framework during 2015 to support streamlined administration and compliance with overriding pension industry developments as follows:

### Local Government Pension Scheme (Amendment) Regulation 2015

The Amendment Regulations came into force on 11 April 2015 and amend the LGPS Regulations 2013 and the Transitional Provisions, Savings and Amendment Regulations 2014.

The key revisions relate to the following regulatory provisions:

- a clarifying amendment to explicitly define that, where a member dies in service, regardless of membership length, a member shall be deemed to have met the two year vesting period required for entitlement to a survivor and child pension
- an amendment to deliver the policy intent where a member dies in service with a deferred benefit or pension in payment, the death grant should be the greater of:
  a) the death in service grant and;
  b) the aggregate of the death grants due in respect of the deferred pension and pension in payment.

It is noteworthy that if the sum payable in respect of the previous deferred benefit or pension is greater than the death in service grant, then the current employer is responsible for paying the higher death grant from its section of the Fund.

### Pension Act 2015

The Pension Act 2015 implemented changes announced at the 2014 'Budget'. These changes allow individuals over age 55 to access their defined contribution benefits in more flexible ways from April 2015. These provisions are referred within the industry as 'Freedom & Choice'.

The most significant impact on the LGPS is the requirement to disclose information relating to the changes and the additional safeguard responsibilities governing the transfer of benefits. This radical change in policy direction has required the Fund to revise procedures and literature, in order to provide all leavers with transfer options and to apply a robust framework in ensuring members wishing to transfer, obtain appropriate independent financial advice.

Increased flexibility in accessing pensions may potentially flow through to the LGPS at a future date as a mechanism to manage future pension liabilities. Draft regulations, including increased flexibilities within the LGPS have been issued at the time of drafting this report and are subject to consultation.

### The Pension Regulators Code of Practice No.14 Governance and Administration of Public Service Pension Schemes

In April 2015, the Pension Regulator issued the above Code of Practice, setting out the legal requirements and standards of conduct for the administration, management and governance of public service pension schemes.

The Fund is developing a model to assess compliance against the ninety key definitive legal requirements measured by the Code. There is work in progress to undertake a gap analysis, identifying any corrective actions to tighten controls, and to create a robust monitoring framework against the Code.

# Scheme Administration Report

## The Public Service Pensions (Record Keeping and Miscellaneous Amendment) Regulations 2014

The above regulations came into force in April 2015 and set out a list of the records the Fund must keep in relation to members, beneficiaries, transactions and Pension Board meetings. The Pensions Regulator has issued guidance to scheme managers encouraging a proportionate risk based approach to regular data monitoring - noting that significantly more data needs to be recorded to effectively operate the CARE scheme.

The Fund's operational procedure for testing data quality has been reviewed during the year to reflect the new benefit and governance structure. This has resulted in a shift from annual data reviews to more frequent data reconciliations with employers - to ensure the Fund's core business function to pay the right person, the right pension, at the right time.

## Summer Budget and Finance (No.2) Act 2015

The Chancellor, in delivering his summer budget, committed to further radical reform of the pension industry and announced material changes to 'taper the Annual Allowance (AA)' for high earners, in addition, a plan to reduce the Life Time Allowance (LTA) from £1.25m to £1m from April 2016. These announcements were notwithstanding the government plans to work with Administering Authorities on pooling investments to deliver savings, whilst maintaining investment returns.

The Finance (No.2) Act incorporated into legislation the reduction to the AA by £1 for every £2 of income earned over £150,000, to be tapered down and set at £10,000 for those with earnings over £210,000.

To facilitate this change, the LGPS Pension Input Period (PIP) will change from 31 March to align with tax years from 2016/17 - with transitional arrangements for 2015/16. Under the transitional arrangements, members will have an Annual Allowance of £80,000 for 31 March 2015 to 5 April 2016 with a limit of £40,000 over the period 9 July 2015 to 5 April 2016.

The regulations for both the pre-April 2014 Scheme and the current Scheme can be accessed from the following links:

Pre April 2014
www.lgpsregs.org/timelineregs/Default.html

Post April 2014
www.lgpsregs.org/index.php/regs-legislation/lgpsregs2013-resources

## LGPS National Insurance Database and DWP 'Tell Us Once' Service

The Fund is participating in a data sharing exercise with other LGPS pension funds in England, Wales and Scotland to ensure the correct payment of death grants.

A National Insurance Database has been developed by the Local Government Association and hosted by the South Yorkshire Pension Authority, to enable Fund officers to enquire if a member has an LGPS pension record at any other pension fund.

An extract of the membership information contained in the National Insurance database will also be periodically shared with the Department for Work and Pensions (DWP) for use in by the 'Tell Us Once' Service.

'Tell Us Once' is a service offered by a registrar when a person attends a register office to report a death.
The service will alert the Fund of registered deaths for our members on a timelier basis, thus reducing the chance of pension overpayment and unnecessary bureaucracy for recently bereaved relatives.

## Cost of the Scheme to Employers and Employees.

The Scheme is based on a cost ceiling of 19.5% with a notional employer future service contribution rate of 13% of pay and an average employee contribution of 6.5%.

The cost of the revised CARE benefit design and increased accrual rate is equivalent to the final salary scheme design. Although the revised definition of pensionable pay includes non-contractual overtime, so there is potential for additional costs if employers pay a substantial level of non-contractual overtime to its employees.

Control of future costs will emerge through the linking of a member's Normal Pension Age to State Pension Age. However, the expected savings for employers are in the region of 1.5% - 2% of pay but could vary significantly for individual employers depending on the membership profile of their workforce.

It is possible that the alignment of Normal Pension Age and State Retirement Age may be insufficient to control the future costs of the Scheme and as such a 'two pronged' cost management process, governed by the Scheme Advisory Board and HM Treasury is embedded within the regulations.

Past service deficits are outside of the cost management process, but the Shadow Scheme Advisory Board has set up a Deficit Working Group to consider an innovative approach to deficit management at both Fund and employer level in the LGPS.

## Earning Bands for Employee Contributions

The employee contribution banding for 2016/17 is unchanged from 2015/16.

The following pay ranges and employee contribution rates apply from April 2016 as follows:

| Pay Bands | Contribution Rates (per employment) |
|---|---|
| Up to £13,600 | **5.5%** |
| £13,601 - £21,200 | **5.8%** |
| £21,201 - £34,400 | **6.5%** |
| £34,401 - £43,500 | **6.8%** |
| £43,501 - £60,700 | **8.5%** |
| £60,701 - £86,000 | **9.9%** |
| £86,001 - £101,200 | **10.5%** |
| £101,201 - £151,800 | **11.4%** |
| Over £151,800 | **12.5%** |

Unless the process for allocating the appropriate contribution rate from the above bands has been automated on the payroll system, employers must determine the appropriate employee contribution rate for each employee from 1 April 2016 and notify this to payroll. Any reductions in pensionable pay at that time due to sickness, child related leave, reserve forces service leave or other absence from work are to be disregarded when determining the appropriate contribution rate.

## Consultation on Tax Relief and Public Sector Exit Payments

During the year, the Fund responded to the government's green paper on whether there is a case for reforming pension tax relief, with the stated aim of encouraging more people to save for the future.

The conclusion reached by the Fund in its response to the consultation, was that a single rate of tax relief was likely to incentivise pension saving amongst those on low to middle incomes. Whereas the removal of upfront tax relief may signify the end of pensions if people do not receive any direct benefit from contributing to a scheme.

The Fund also kept Scheme employers apprised of the three separate government consultations on Public Sector Exit Payments. Specifically, the intent to legislate for a £95,000 cap on the total value of payments made to an individual in relation to their exit from a public sector employer - including any pension fund shortfall.

The Fund raised awareness of LGA's commitment to coordinate employers' views and prepare a joint response on behalf of the Local Government sector.

The outcome of the consultation was the Enterprise Act 2016, which gives Treasury the power to restrict public sector exit payments.

The Act requires the Treasury to introduce secondary legislation to implement a cap on public sector exit payments; the legislation must be approved by both the House of Commons and the House of Lords for it to become law.

The draft regulations to affect this change have been published and are expected to come into force in October 2016.

## Pension Fund Policies

During 2015/16 the Governance Compliance Statement was updated to take account of the changes in the regulations and primarily to include the Pension Board within the Fund's governance structure.

An Admission policy was drawn up to alert local authorities and prospective employers of the key considerations when outsourcing local authority contracts, together with the operational and governance requirements to gain access as a Scheme employer.

A breaches policy was also formulated to assist elected members, officers of the Fund and the local pension board to comply with the statutory requirement to identify and, where necessary, report breaches of the law relating to the management and administration of the Fund to the Pension Regulator.

## Administration Arrangements

### The Administration Team

The administration team is accountable to the Pensions Committee, participating employers and Scheme members. The team are fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to deliver excellent customer care.

The team administer the Merseyside Pension Fund in accordance with legislative requirements with the key aims to:

- set the strategic direction for all aspects of the service;
- support the Trustees of the Pension Fund in their decision making;
- ensure the proficient administration of pension records, including the preparation and distribution of Annual Benefit Statements to active and deferred members;

# Scheme Administration Report

- undertake the calculation and payment of retirement benefits and transfer values;

- provide direction and guidance to Scheme members and Employers;

The team structure is currently being reviewed by officers in regards its appropriateness for the efficient administration of the new Scheme as a consequence of legislative changes effective from April 2015; specifically the Fund is subject to new standards and reporting requirements, including increased oversight from both the Pension Regulator and the Scheme Advisory Board.

In addition, the Fund has significant projects ahead, including the 2016 actuarial valuation and following the ending of contracting out in April 2016, the reconciliation of Guaranteed Minimum Pension records with HMRC.

The review of the team's capacity demonstrates a positive response to the Scheme Advisory Board's 'Call for Action' in 2015, when the Board wrote to all LGPS Administering Authorities reinforcing their statutory obligation to ensure sufficient resources are maintained to manage the Fund.

The Fund plans to seek Pensions Committee approval of a revised administration structure during 2016 to ensure compliance with statutory duties and increased data quality obligations.

## Pensions Administration Strategy

The Fund's formal Pension Administration Strategy sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirement of the employers.

The primary objective of the strategy seeks to ensure that the Fund can continue to deliver a high quality cost effective pension service at a time when the operating environment is becoming more complex.

The focus of the administration section is to promote more effective working arrangements between the Fund and employers in order to meet future challenges, and deliver a high quality level of service to members.

Key elements are the improvements of communications between employers and the Fund, training of both Fund and employer staff, and the utilisation of technology as effectively as possible to capture and process data. One of the administration objectives is for all data to be reviewed and sent electronically between the Fund and employers

The strategy incorporates performance targets for both the Fund and employers and performance is monitored monthly by the Fund's Operating Group.

The Fund is currently reviewing the strategy in view of its migration to a digital operating model and the rigorous data requirements introduced under the revised governance regime and record keeping legislation.

The primary objective is to strengthen the Fund's quality assurance in regards data provision; identifying reasons for any gaps in data, supporting employers in meeting their statutory responsibilities under the Scheme and to overall improve employer engagement.

The Fund is revisiting its charging policy in circumstances of employer failure to meet prescribed deadlines in submitting data and where those failures lead to the Fund incurring additional resource costs, or the inability to comply with its statutory duties in administering the LGPS.

## Collaborative Working

The Fund keeps abreast of best practice by participating in collaborative groups such as the Local Government Association's Communication Group and the Shrewsbury Pensions Officer Group meeting. These offer the opportunity to discuss topical pension issues and to share best practice and innovations.

## Service Planning

The Fund's management team maintain an annual 'Business Plan' which is shared with and monitored by the Governance and Risk Working Party, a sub-group of Pensions Committee. This working party meets twice a year to review officer progress against documented objectives and commitments.

The contents of the 'Business Plan' are shared with all of the officers and there is a direct link with the performance appraisal process of staff.

## Operational Costs

The Fund's operational cost is reviewed by the Pensions Committee, who approve the annual operational budget. Actual spend is monitored throughout the year by the Fund management team and overall spend is reported in the Annual Accounts.

The Department for Communities and Local Government annually surveys funds to collect administration and fund management costs of the LGPS - this is referred to as the 'SF3' statistical return. Submitted under Section 168 of the Local Government Act 1972, the data provide government with a benchmark of Scheme costs and is also used in compiling the National Accounts, showing the role of pension funds in the economy.

In 2014, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued guidance for 'accounting for local government pension scheme management costs'. The administration cost reported in the 2015-16 'SF3' statistical return is £15.95 per member. In 2014-15 the administration cost was £16.37 per member.

## Equality & Diversity

The Fund aims to deliver accessible, high-quality and value for money services to all our customers, without discrimination to any actual or perceived social grouping; for example sex, race, disability, sexual orientation, religion, belief or age.

Any necessary and reasonable adjustments are made to ensure that members with additional needs can access our communications.

## Communications Policy

Excellent communication is fundamental to ensuring both employers and members are kept fully informed of the benefit package and changes to the Scheme.

In all our communications we aim to:

- Provide clear, relevant, accurate, accessible and timely information
- Carefully listen, consider and respond to communications we receive
- Use plain English where possible and avoid unnecessary jargon
- Use the communication method that best suits the audience

The Fund is reviewing the policy in view of its migration to a digital operating model, the current policy can be found on our website at **http://mpfund.uk/commspol**

## Scheme Member Communications

The principal communication issued to active and deferred members each year is the Annual Benefit Statement and the accompanying newsletter to update members on significant changes to the Scheme, state pension reform and the impact of industry wide developments such as 'Freedom and Choice' and the pitfalls of pension liberation.

Pensioner members received a newsletter in March and the topics included the changes to the State Pension, the Local Pension Board and notice that there would be no pensions increase in April 2016 but remain at the same level of payment.

In March, the Fund wrote a letter to the home address of all active members, who will reach State Pension Age after 5 April 2016. The letter described how the new single-tier State Pension will replace the existing basic and additional State Pension from 6 April 2016 and the communication was a regulatory requirement under Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

Further to informing contributing members that they will no longer be participating in a contracted-out pension scheme, the letter raised awareness of the 50/50 section of the LGPS should the rise in National Insurance contributions place the member into financial difficulty - offered as an alternative to members 'opting out' of future pension saving. The letter also provided another means of communicating the availability of the online 'MyPension' service, encouraging members to register in advance of the production of the 2016 Annual Benefit Statements.

In addition, to the routine centralised presentations that are carried out by the communications team, they have continued to deliver presentations to active members upon employer request. As many organisations are facing restructure the team have produced tailored presentations to support staff and provide information on how their pension benefits may be affected.

**Presentations for Scheme Members**

| | Events | Approx. Attendees |
|---|---|---|
| **Retirement Planning Course** | | |
| Hosted at Employer Premises | 9 | 180 |
| Centrally Arranged Course (for Smaller Employers) | 1 | 20 |
| **Presentations on the LGPS** | | |
| Hosted at Employer Premises | 15 | 335 |
| **Total** | **25** | **535** |

Efforts to increase Scheme participation continues to be a challenge to the Fund, made all the more challenging as employers face difficult decisions in regards the size of their workforce.

## Employer Communications

The Fund has a password protected employer website where employers can obtain forms, guidance notes and access payroll and HR administration guides. The Fund does not publish a periodic employer newsletter, but rather uses the employer website as a means to announce news, revisions to forms and other pertinent information - each registered user of the employers' website receives an email notification of any news or change to the administration of the Scheme.

# Scheme Administration Report

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund specific documents provide detailed information on administrative and operational practice. During the year, the Fund provided employers with resources on the New State Pension, the ending of contracting out and a reminder to employers about their Automatic re-enrolment obligations.

The Fund has organised numerous training sessions for Fund employers to provide guidance on employer duties, operational practice and direction in completing Fund forms.

**Events for Employers**

| | Events | Approx. Attendees |
|---|---|---|
| **Practitioner Training** | 6 | 84 |
| **Topic Specific Seminar** Changes to the Annual & Lifetime Allowance from 6 April 2016 | 1 | 46 |
| **Annual Employers' Conference** | 1 | 93 |

## Data Security

In administering the Scheme, the Fund collects, records and maintains personal data on members, former members and pensioners.

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection & Information Security, and are required to undertake Information Governance training.
- New staff as part of their induction, have the responsibilities and policies explained and their understanding verified by the successful undertaking of an online test.
- All administration data is stored electronically and any paper records are securely destroyed.
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication).
- Where person identifiable data has to be transferred off-site, the Fund uses secure means; using either the 'Government Connect' network or via secure email/websites.

Data Quality & Employer Performance

The Fund actively engages with employers in regards the quality, accuracy and timeliness of the data provided for Scheme administration. The programme of employer engagement is continuing inline with the requirements detailed in the Pensions Administration Strategy (PAS).

The PAS does provide the Fund with the means to recover any additional costs arising from the continued poor performance of an employing authority. During 2015-16, there were no cost recoveries initiated by the Fund.

## Use of Information Technology

The Fund has continued to strive for improved efficiency through the appropriate use of Information Technology. Officers have continued to actively engage with the key supplier, Aquila/Heywoods, in ensuring that the Pensions Administration & Pensioner Payroll system continues to meet the needs of the Fund. Updates to calculations have continued to be delivered by the supplier, in response to the significant complexity involved in the administration of the LGPS.

During the year, the Fund has been working with Aquila/Heywoods on improving the 'MyPension' online member portal that was re-launched in October 2012. The portal allows members to view their pension records and also securely update any changes to their contact details.

Since 2013, members have been able to view their Annual Benefit Statements via the portal and it has been actively promoted during the last year, as the Fund plan to only issue the majority of the 2016 Annual Benefit Statements in electronic format.

## Performance Standards

Results of performance against target are shown below:

| Performance Targets | Target | Within Target (%) |
|---|---|---|
| 1. Payment of Retirement Benefits | 7 days | 97 |
| 2. Payment of Monthly Pensions | 100% | 100 |
| 3. Payment of Transfer Values | 7 days | 99 |
| 4. Provision of Inward Transfer Quotes | 10 days | 99 |
| 5. Notification of Deferred Benefits | 22 days | 87 |
| 6. Provide Valuation in Divorce Cases | 10 days | 99 |
| 7. Respond to Members Enquiries | 10 days | 85 |

*(Details given in respect of 12 month period to 31 March 2016)*

## Internal Dispute Resolution Cases

Members who disagree with decisions taken by their employer or the administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS regulations. The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, that is, either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the administering authority to review the disagreement.

The appeals received over the reporting period are:

### Breakdown of IDRP Cases 2015 - 2016

**Total IDRP Cases (Against Fund and Employer Decisions)**

| | |
|---|---|
| Refused Deferred Benefit on Ill Health Grounds | 5 |
| Refused Termination of Employment on Ill Health Grounds | 1 |
| Refused Early Release of Deferred Benefit on Employer Consent | 1 |
| Discretionary Award of Death Grant | 1 |
| Determination of Pensionable Pay | 1 |
| **Total Appeals** | **9** |

**Appeals Against Employer Decisions**

| Employer | Number | Employer Decision |
|---|---|---|
| Liverpool | 3 | 1 Upheld / 2 Granted |
| Wirral | 1 | Upheld |
| Merseyside Fire & Rescue Authority | 1 | Upheld |
| Police | 1 | Granted |
| Riverside Housing | 1 | Granted |
| **Total Employer Appeals** | **7** | |

**Appeals Against Fund Decisions**

| Reason for Appeal | Number | Fund Decision |
|---|---|---|
| Discretionary Award of Death Grant | 1 | Upheld |
| Determination of Pensionability of Non-Contractual Bonus | 1 | Granted |
| **Total Fund Appeals** | **2** | |

## Pension Ombudsman

There were no Pension Ombudsman rulings on Fund determinations over the reporting period.

# Investment Report

Year ended 31 March 2016

Over the financial year to the end of March 2016, asset markets were buffeted by concerns over slowing global growth and the response of many central banks acting over the year to support economic activity. At the beginning of the year investors were anguishing over a possible Grexit from the EU. Relief finally came in July when a resolution to the Greek bail-out program was accepted by both the Greek government and its creditors. There were positive developments elsewhere in Europe as economic growth surprised on the upside, the unemployment rate moved lower.

In August, however, there was a sharp reversal in mood. Evidence of a slowing Chinese economy became more pronounced and this prompted the Chinese regime to pursue a significant devaluation of the Yuan. Slowing Chinese growth caused particular pain for the global commodity markets and the price of oil fell to a decade low of $27 per barrel. Amidst the turmoil the European Central Bank suggested that, if necessary, it could increase its quantitative easing programme. In the US the Federal Reserve postponed a rise in interest rates that had been anticipated for the September meeting: a small increase of a quarter of a percentage point to 0.5% was voted through in December once markets and commodity prices had rebounded from their low levels.

Concerns over China continued to dominate investors' attention through the first quarter of 2016 causing another sell off in equities and corporate bonds and a flight to the traditional 'safe-haven' assets such as developed market government bonds and precious metals. However, concerns abated somewhat into the end of the quarter as central banks detailed yet further monetary policy accommodation.

Against the challenging economic backdrop, global equity markets struggled to deliver positive returns. For UK based investors the UK and European stock markets both delivered negative 4% returns, Asia Pacific, including Japan, delivered a negative return of 5.9% and Emerging Markets suffered the most with a loss of nearly 9%. Of the major regions only the US S&P 500 Index delivered positive returns of +4%, but this was driven by the strength of the US dollar against Pounds Sterling rather than a broad positive move in the underlying US stock prices.

The property market sector continued to deliver strong returns rising over 11% during the year with capital value growth contributing 6.4% and income 5%.

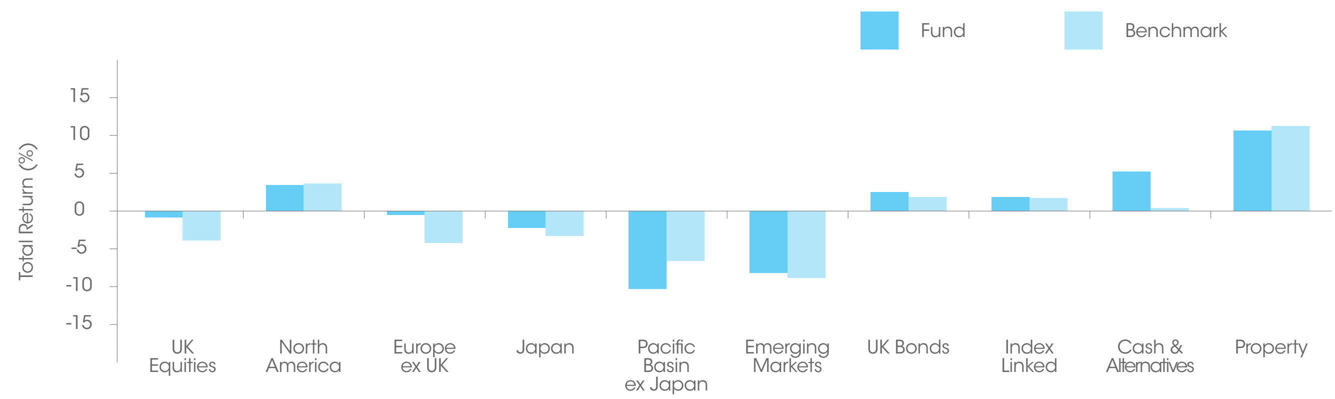
In fixed income, renewed demand for safe-haven assets helped to send long-term interest rates near historic lows across developed markets. This drove a positive performance from UK government bonds and UK corporate bonds with returns over the year of 0.47% and 3.30% respectively.

The annualised performance of the Fund against its benchmark and against CPI and UK average weekly earnings indices for 1, 3, and 5 year periods is tabulated below.

| | 1 Year | 3 Year | 5 Year |
|---|---|---|---|
| MPF | 1.2% | 6.50% | 7.10% |
| Benchmark | -0.40% | 4.80% | 5.90% |
| Relative Return | 1.60% | 1.70% | 1.20% |
| CPI | 0.20% | 0.60% | 1.50% |
| Average Earnings | 1.80% | 2.50% | 1.60% |

*Source: WM Quarterly Review Periods to End March 2015*

Figure 1.
Total Return by Asset Class in year ended 31 March 2016

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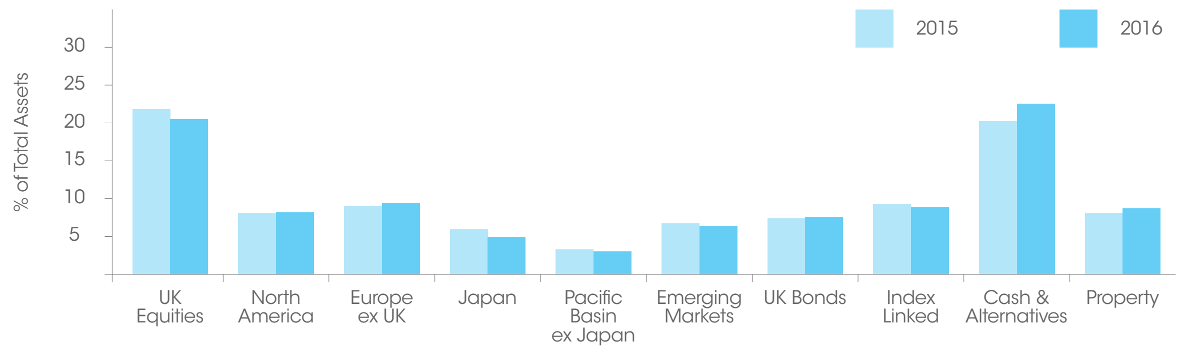
The Merseyside Pension Fund returned 1.2% in the financial year to the end of March 2016 compared to its bespoke benchmark return of -0.4%, an outperformance of 1.6%. This was comfortably ahead of the Consumer Price Index, but behind the increase in Average Earnings.

The Fund's investment performance against its benchmarks across all asset classes is illustrated in Figure 1.

Figure 2 illustrates the asset allocation of the Fund at end March 2016 against the Fund's asset allocation as at end March 2015.

Figure 2.
Asset Allocation




## Largest UK Property Holdings as at 31 March 2016

| Property | Market Value £'000 |
|---|---|
| Fort Retail Park, Birmingham | 30,450 |
| Tesco Supermarket, Telegraph Road | 30,000 |
| Tunsgate Square, Guildford | 24,250 |
| Farnham Retail Park | 20,450 |
| Middlemarch Business Park, Coventry | 20,200 |
| Willowbrook Retail Park, Derby Road | 19,100 |
| Premier Park, Winsford | 19,000 |
| Brighton 134-138 North Street | 16,600 |
| Horns Road, Ilford | 16,500 |
| Mitre Bridge Indutrial Estate, Mitre Way | 16,500 |

## Strategic Asset Structure

| Asset Class | Strategic Benchmark % | Detail % |
|---|---|---|
| **UK Equities** | **23** | |
| **Overseas Equities** | **30** | |
| US | | 8 |
| European (ex UK) | | 8 |
| Japan | | 4 |
| Asia Pacific | | 4 |
| Emerging Markets | | 6 |
| **Fixed Interest** | **19** | |
| UK Gilts | | 4 |
| UK Index Linked Gilts | | 11 |
| Corporate Bonds | | 4 |
| **Property** | **8** | |
| **Alternatives** | **20** | |
| Private Equity | | 5 |
| Hedge Funds | | 5 |
| Opportunities | | 5 |
| Infrastructure | | 5 |
| Cash | | |
| **Total** | **100** | |

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# Financial Performance

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and June 2015) for the 12 months to 31 March 2016.

| | 2015/16 or at 31 March 2016 | |
|---|---|---|
| | **Predicted £'000** | **Actual £'000** |
| **Fund Size 2015** | **6,862,705** | **6,862,705** |
| **Fund Size 2016** | **7,553,340** | **6,849,756** |
| Pensions Paid | (295,185) | (300,320) |
| Contributions Received | 192,303 | 223,439 |
| Net Transfers | 0 | (7,284) |
| **Net cash flow from members** | **(102,882)** | **(84,165)** |
| **Net management expenses** | **(19,455)** | **(32,626)** |
| Investment Income | 128,195 | 139,903 |
| Change in valuation of assets | 684,777 | (36,061) |
| **Return from Investments** | **+812,972** | **+103,842** |
| | | |
| **Net change overall** | **+690,635** | **(12,949)** |

The key variance between the forecast and the actual performance was the return on investments, the change in the valuation of assets; this is largely out of the control of the Fund.

The variance in management expenses is largely due to a change in accountancy policy during the year, actual management expenses includes property related expenditure (£5.1m), private market management fees (£6.3m) and transaction costs (£3.5m) in accordance with Cipfa 'Accounting for Local Government Management Costs', the predicted management expenses did not take account of these costs.

The contributions received in 2015/16 are lower than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2014/15), therefore 2015/16 and 2016/17 have been reduced accordingly.

The Fund monitors its costs closely. The table below shows the out-turn against the budget approved at Pensions Committee for the year:

| | 12 months to 31 March 2016 | |
|---|---|---|
| | **Budget £'000** | **Actual £'000** |
| Employees | 3,140 | 2,672 |
| Premises | 252 | 252 |
| Transport | 41 | 27 |
| Investment Fees - operating budget | 13,380 | 12,560 |
| Other Supplies and Services | 1,522 | 1,235 |
| Third Party | 619 | 528 |
| Recharges | 501 | 461 |
| **Total** | **19,455** | **17,735** |

*Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building.*
*For the purposes of the operating budget, Investment fees above refers to invoiced investment costs only and is therefore lower than the figure disclosed in the Fund Account.*

Overall the actual out-turn for 2015/16 was £17.7 million, lower than the original budget of £19.5 million approved by Pensions Committee June 2015.

The Fund has a 3 year budget as approved by Pensions Committee, this is detailed in the table below.

| | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| Employees | 3,326 | 3,359 | 3,393 |
| Premises | 284 | 288 | 291 |
| Transport | 53 | 54 | 54 |
| Investment Fees | 12,611 | 13,482 | 14,412 |
| Other Supplies and Services | 1,784 | 1,807 | 1,831 |
| Third Party | 658 | 667 | 675 |
| Recharges | 530 | 530 | 530 |
| **Total** | **19,246** | **20,187** | **21,186** |

The assumptions that underpin this budget are that, over the next 3 years, investment performance follows long-term trends and that the Fund follows the long-term trends in mortality and other factors assumed within the actuarial valuation. The budget also allows for some growth in staffing and IT costs for the changes in the Scheme administration. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure nor any investment changes associated with pooling.

The predictions for key financial variables over the next 3 years are detailed in the table below:

| | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Fund Size Start of Year** | **6,849,756** | **7,209,003** | **7,640,242** |
| **Fund Size End of Year** | **7,209,003** | **7,640,242** | **8,098,300** |
| Pensions Paid | (307,828) | (315,524) | (323,412) |
| Contributions Received | 229,025 | 286,001 | 293,151 |
| Net Transfers | - | - | - |
| **Net Inflow from Members** | **(78,803)** | **(29,523)** | **(30,261)** |
| **Net Management Expenses** | **(34,584)** | **(36,659)** | **(38,858)** |
| Investment Income | 149,556 | 159,876 | 170,907 |
| Change in Valuation of Assets | 323,078 | 337,545 | 356,270 |
| **Return from Investments** | **472,634** | **497,421** | **527,177** |
| | | | |
| **Net change overall** | **359,247** | **431,239** | **458,058** |

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long-term average (7% per annum) then the out-turn will be significantly different. The other key variable is the pattern of membership of the Scheme. If the employers make significant changes which affect the number of active members or deferred members and pensioners, then the cash-flows of the Scheme can change materially. Both of these factors are largely outside the influence of Merseyside Pension Fund.

# Financial Statements

## Fund Account - for year ended 31 March 2016

| | Note | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|---|
| | | | Reanalysed |
| **Dealing with Members, Employers and Others Directly Involved in the Fund** | | | |
| Contributions Receivable | 7 | 223,439 | 365,003 |
| Transfers In | 8 | 7,162 | 45,937 |
| | | **230,601** | **410,940** |
| Benefits Payable | 9 | (300,320) | (291,685) |
| Payments to and on Account of Leavers | 10 | (14,446) | (124,520) |
| | | **(314,766)** | **(416,205)** |
| **Additions/(Withdrawals) from Dealing with Members** | | **(84,165)** | (5,265) |
| **Management Expenses** | 11 | **(32,626)** | (25,801) |
| **Return on Investments:** | | | |
| Investment Income | 12 | 140,290 | 126,242 |
| Profit and Losses on Disposal of Investments and Change in Market Value of Investments | 13 | (36,061) | 643,704 |
| Taxes on Income | 12 | (387) | (469) |
| **Net Return on Investments** | | **103,842** | **769,477** |
| Net Increase/(Decrease) in the Fund During the Year | | (12,949) | 738,411 |
| Net Assets of the Fund at the Start of the Year | | 6,862,705 | 6,124,294 |
| **Net Assets of the Fund at the End of the Year** | | **6,849,756** | **6,862,705** |

## Net Assets Statement - for the year ended 31 March 2016

| | Note | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|---|
| **Investment Assets** | 13 | | |
| Equities | | 2,020,418 | 2,053,353 |
| Pooled Investment Vehicles | | 4,264,626 | 4,275,613 |
| Derivative Contracts | | 254 | 2,233 |
| Direct Property | | 377,000 | 382,210 |
| Short Term Cash Deposits | | 40,031 | 47,098 |
| Other Investment Balances | | 114,660 | 92,169 |
| | | **6,816,989** | **6,852,676** |
| **Investment Liabilities** | 17 | (4,527) | (24,868) |
| | | **6,812,462** | **6,827,808** |
| Long Term Assets | 18 | 9,236 | 11,655 |
| Current Assets | 19 | 39,270 | 39,635 |
| Current Liabilities | 19 | (11,212) | (16,393) |
| **Net Assets of the Fund as at 31 March** | | **6,849,756** | **6,862,705** |

# Notes to the Accounts

## 1. Description of the Fund

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Wirral Council. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2015/16 included 10 councillors from Wirral Council, the Administering Authority, plus one councillor from each of the 4 other Borough Councils, and one member representing the other employers in the Scheme. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

During 2015/16 a local Pensions Board has been introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administering Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### a. General

The Scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 170 employer organisations within Merseyside Pension Fund including Wirral Council itself as detailed below:

| | 31/3/16 | 31/3/15 |
|---|---|---|
| Number of Employers with Active Members | **170** | 162 |

| | 31/3/16 | 31/3/15 |
|---|---|---|
| Number of Employees in Scheme | **46,221** | 45,417 |
| Number of Pensioners | **41,136** | 39,918 |
| Number of Dependants | **6,588** | 6,682 |
| Number of Deferred Pensioners | **37,136** | 36,237 |
| **Total** | **131,081** | 128,254 |

### c. Funding

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

# Notes to the Accounts

**d. Benefits**
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| **Pension** | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| **Lump Sum** | Automatic lump sum of 3 times salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum accrual. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme, for more details please refer to the Fund's website.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the Actuary, which is published as an addendum to the accounts.

## 3. Accounting Policies

The financial statements have been prepared on an accruals basis, unless otherwise stated.

**Contributions and Benefits**
Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme actuary or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken where the knowledge of the individual member's choice is still outstanding.
- Death grants due for payment, but not paid by 31 March: for example awaiting Probate.

**Transfers to and from Other Schemes**
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

**Management Expenses**
The Fund discloses its management expenses split between administration expenses, investment management expenses and oversight and governance costs.

Administration Expenses
All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

Investment Expenses
All investment expenses are accounted for on an accruals basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA 'Accounting for Local Government Management Costs' guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure, the Fund do not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment or from investment income paid to the Fund. If the Fund has been charged directly for fund manager costs they are shown as external investment management fees.

Oversight and Governance Expenses
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

**Investment Income**
Income from Equities is accounted for when the related investment is quoted ex dividend. Income from Pooled Investment Vehicles and interest on Short Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Taxation**
The Fund is a registered Public Service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

**Valuation of Investments**
Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained should the securities have been sold at that date.

- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.

- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators or using latest financial statements published by respective Fund Managers adjusted for any cash flows.

- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.

- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed

Funds the net asset value per unit is obtained through data vendors.

- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2016 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the 9th Edition of the RICS Valuation - Professional Standards (incorporating the International Valuation Standards) ('the RICS Red Book').

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

**Translation of Foreign Currencies**
Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

**Derivatives**
The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

**Short Term Deposits**
Short-term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under 'Other Investment Balances'.

**Financial Liabilities**
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**Additional Voluntary Contributions**
The Committee holds assets invested separately from the main Fund. In accordance with regulation 4 (2) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2009, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

## 4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

## 5. Estimation

**Unquoted Investments**
The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2016 was £1,670 million (£1,540 million at 31 March 2015).

Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

## 6. Events After the Balance Sheet Date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

## 7. Contributions Receivable

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Employers** | | |
| Normal | 110,735 | 108,369 |
| Pension Strain | 13,492 | 15,334 |
| Deficit Funding | 45,843 | 187,858 |
| **Employees** | | |
| Normal | 53,369 | 53,442 |
| | **223,439** | **365,003** |
| Relating to: Administering Authority | 36,338 | 38,375 |
| Statutory Bodies | 139,618 | 290,324 |
| Admission Bodies | 47,483 | 36,304 |
| | **223,439** | **365,003** |

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2016 contributions above were calculated at the valuation dated 31 March 2013. The 2013 actuarial valuation calculated the average employer contribution of 22.5% (2010 18%).

'Pension Strain' represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

'Deficit Funding' includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2015/16 the Fund received additional and upfront payments covering the period until the next actuarial valuation in 2016, totalling £1.6 million, (in 2014/15, a number of employers opted to pay their three years deficit as a lump sum payment in year 1 totalling £96.8 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2015/16 no such charges were levied.

## 8. Transfers In

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Group Transfers | - | 39,832 |
| Individual Transfers | 7,162 | 6,105 |
| | **7,162** | **45,937** |

There were no group transfers to the Fund during 2015/16.

On 1 April 2014 MPF became the appropriate LGPS Fund for all Scheme members who have accrued LGPS benefits as a result of employment with the Local Government Association, for which a transfer of assets was received during 2014/15 with a value of £39.8 million.

## 9. Benefits Payable

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Pensions | 243,390 | 235,364 |
| Lump Sum Retiring Allowances | 51,958 | 50,118 |
| Lump Sum Death Benefits | 4,972 | 6,203 |
| | **300,320** | **291,685** |
| Relating to: Administering Authority | 42,817 | 40,478 |
| Statutory Bodies | 210,017 | 206,877 |
| Admission Bodies | 47,486 | 44,330 |
| | **300,320** | **291,685** |

## 10. Payments to and on Account of Leavers

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Refunds to Members Leaving Service | 429 | 172 |
| Payment for Members Joining State Scheme | 222 | 84 |
| Income for Members from State Scheme | (14) | (1) |
| Group Transfers to Other Schemes | 1,411 | 116,523 |
| Individual Transfers to Other Schemes | 12,398 | 7,742 |
| | **14,446** | **124,520** |

There were two group transfers out of the Fund during 2015/16.

As part of the transforming rehabilitation programme, MPF transferred the Probation Trust liabilities on 1 June 2014 to Greater Manchester Pension Fund and transferred assets with a value of £116.5 million during 2014/15.

# Notes to the Accounts

## 11. Management Expenses

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| | | Restated |
| Administration Expenses | 2,421 | 2,369 |
| Investment Expenses | 28,697 | 22,079 |
| Oversight and Governance Expenses | 1,838 | 1,620 |
| Other Income | (330) | (267) |
| | **32,626** | **25,801** |

**Management expenses are analysed into three categories, in accordance with CIPFA 'Accounting for local government management costs'.*

## 11a. Administration Expenses

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Employee Costs | 1,643 | 1,576 |
| IT Costs | 404 | 457 |
| General Costs | 320 | 261 |
| Other Costs | 54 | 75 |
| | **2,421** | **2,369** |

## 11b. Investment Expenses

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| | | Restated |
| External Investment Management Fees | 15,850 | 10,456 |
| External Investment Management Performance Fees | 3,111 | 1,845 |
| External Services | 640 | 718 |
| Internal Investment Management Fees | 483 | 500 |
| Property Related Expenses | 5,093 | 4,834 |
| Transaction Costs | 3,520 | 3,726 |
| | **28,697** | **22,079** |

In accordance with CIPFA 'Accounting for Local Government Management Costs' guidance, transaction costs and property related expenses are now shown under investment expenses. Transaction costs was previously added to purchases and netted against sales proceeds in table 13. Property related expenses were previously netted against rental income in table 12. The 2014/15 figures have been restated to reflect these changes.

In 2015/16 external investment management fees includes management fees paid for unlisted assets where the Fund has paid them directly, this amounted to £6.3 million, comparable data has not been restated for 2014/15 in the above table as the data was not collected in a way that allows reclassification.

## 11c. Oversight and Governance Expenses

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Employee Costs | 449 | 418 |
| External Services | 733 | 495 |
| Internal Audit | 30 | 28 |
| External Audit | 40 | 39 |
| Other Costs | 586 | 640 |
| | **1,838** | **1,620** |

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2015/16 is £317,434 relating to recharged Actuarial fees (2014/15 £146,172).

External Audit fees also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

## 12. Investment Income

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| | | Restated |
| Dividends From Equities | 58,649 | 55,896 |
| Income from Pooled Investment Vehicles | 37,075 | 36,316 |
| Rents from Properties | 23,502 | 22,180 |
| Interest on Short Term Cash Deposits | 421 | 837 |
| Income from Private Equity | 19,385 | 9,840 |
| Income from Derivatives | 171 | 35 |
| Other | 1,087 | 1,138 |
| | **140,290** | **126,242** |
| Irrecoverable Withholding Tax | (387) | (469) |
| | **139,903** | **125,773** |

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b), 2014/15 figures have been updated to reflect this change.

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £4.1 million (2014/15 £2.7 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not accruing for future receipt of such income within these accounts. Repayments received in 2015/16 £75,522 (2014/15 £233,029).

## 12a. Property Income

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Rental Income | 23,502 | 22,180 |
| Direct Operating Expenses | (5,093) | (4,834) |
| **Net Rent from Properties** | **18,409** | **17,346** |

No contingent rents have been recognised as income during the period.

## 12b. Property Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Age profile of lease income** | | |
| No later than one year | 1,152 | 2,510 |
| Between one and five years | 8,335 | 4,821 |
| Later than five years | 10,187 | 13,313 |
| **Total** | **19,674** | **20,644** |

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

## 13. Investments

| 2015/16 | Market Value 31/3/15 £'000 | Purchases at Cost and Derivative Payments £'000 | Sale Proceeds and Derivative Receipts £'000 | Change in Market Value* £'000 | Market Value 31/3/16 £'000 |
|---|---|---|---|---|---|
| Equities | 2,053,353 | 894,655 | (852,802) | (74,788) | 2,020,418 |
| Pooled Investment Vehicles | 4,275,613 | 288,302 | (330,982) | 31,693 | 4,264,626 |
| Derivative Contracts | 2,233 | 736,508 | (737,780) | (707) | 254 |
| Direct Property | 382,210 | 30,332 | (42,916) | 7,374 | 377,000 |
| | **6,713,409** | **1,949,797** | **(1,964,480)** | **(36,428)** | **6,662,298** |
| Short Term Cash Deposits | 47,098 | | | (326) | 40,031 |
| Other Investment Balances | 92,169 | | | 693 | 114,660 |
| | **6,852,676** | | | **(36,061)** | **6,816,989** |

| 2014/15 | Market Value 31/3/14 £'000 | Purchases at Cost and Derivative Payments £'000 | Sale Proceeds and Derivative Receipts £'000 | Change in Market Value* £'000 | Market Value 31/3/15 £'000 |
|---|---|---|---|---|---|
| | | Restated | Restated | Restated | |
| Equities | 1,838,855 | 933,352 | (873,642) | 154,788 | 2,053,353 |
| Pooled Investment Vehicles | 3,822,027 | 318,536 | (295,485) | 430,535 | 4,275,613 |
| Derivative Contracts | 4,131 | 2,893,922 | (2,916,839) | 21,019 | 2,233 |
| Direct Property | 310,650 | 57,326 | (23,240) | 37,474 | 382,210 |
| | **5,975,663** | **4,203,136** | **(4,109,206)** | **643,816** | **6,713,409** |
| Short Term Cash Deposits | 31,780 | | | 380 | 47,098 |
| Other Investment Balances | 52,889 | | | (492) | 92,169 |
| | **6,060,332** | | | **643,704** | **6,852,676** |

**Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.*

Transaction costs had previously been added to purchases and netted against sales proceeds; however, they are no longer shown in the above tables and instead are shown under investment expenses in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

## 13a Analysis of investments

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Equities (segregated holdings)** | | |
| UK Quoted | 865,482 | 863,066 |
| Overseas Quoted | 1,154,936 | 1,190,287 |
| | **2,020,418** | **2,053,353** |
| **Pooled Investment Vehicles** | | |
| **UK Managed Funds:** | | |
| Property | 8,180 | 3,000 |
| Equities | 249,694 | 260,501 |
| Private Equity | 246,283 | 218,173 |
| Hedge Funds | 51,440 | 52,724 |
| Corporate Bonds | 242,219 | 236,946 |
| Infrastructure | 118,184 | 78,304 |
| Opportunities | 269,768 | 237,918 |
| **Overseas Managed Funds:** | | |
| Equities | 365,890 | 365,471 |
| Private Equity | 209,515 | 175,779 |
| Hedge Funds | 180,803 | 214,935 |
| Infrastructure | 136,449 | 108,225 |
| Opportunities | 104,647 | 105,452 |
| **UK Unit Trusts:** | | |
| Property | 96,506 | 82,913 |
| **Overseas Unit Trusts:** | | |
| Property | 94,901 | 82,954 |
| **Other Unitised Funds** | 1,890,147 | 2,052,318 |
| | **4,264,626** | **4,275,613** |
| **Derivative Contracts** | **254** | **2,233** |
| **UK Properties** | | |
| Freehold | 338,200 | 344,560 |
| Leasehold | 38,800 | 37,650 |
| | **377,000** | **382,210** |
| Balance at 1 April | 382,210 | 310,650 |
| Additions | 30,332 | 57,326 |
| Disposals | (42,916) | (23,240) |
| Net gain/(loss) of fair value | 10,629 | 459 |
| Transfers in/(out) | - | - |
| Other changes in fair value | (3,255) | 37,015 |
| **Balance at 31 March** | **377,000** | **382,210** |

As at 31 March 2016 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

There were no obligations to purchase new properties.

As at 31 March 2016 the Fund had committed to a redevelopment project of an existing retail centre at Guildford, approved expenditure for the redevelopment is £20 million.

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Short Term Cash Deposits** | | |
| Sterling | 38,946 | 46,067 |
| Foreign Currency | 1,085 | 1,031 |
| | **40,031** | **47,098** |

The foreign currency deposit is an ISK deposit held in an escrow account following the distribution by the Glitnir Winding Up Board. Under the applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Krona payments held within the Icelandic banking system. The deposit is earning market interest rates.

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Other Investment Balances** | | |
| Amounts Due from Brokers | - | 35 |
| Outstanding Trades | 22,765 | 18,495 |
| Outstanding Dividends Entitlements and Recoverable Withholding Tax | 13,373 | 12,005 |
| Cash Deposits | 78,522 | 61,634 |
| | **114,660** | **92,169** |

# Notes to the Accounts

## 13b Analysis of Derivatives

A Futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's Index Futures Contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in EUR currency and the sterling equivalent is £626,265. DJ Euro STOXX 50 have a contract multiplier of x10 therefore the notional value underlying the futures contracts is £-0.81 million.

**Futures**

| Type of Contract | Expires | Economic Exposure £'000 | Market Value £'000 |
|---|---|---|---|
| **Assets** | | | |
| EURO STOXX 50 Index Futures | Jun-16 | (810) | (81) |
| **Total Assets** | | | **(81)** |
| Liabilities | | | - |
| **Total Liabilities** | | | **-** |
| **Net Futures** | | | **(81)** |
| **Derivatives as at 31 March 2015** | | | |
| **Assets** | | | |
| EURO STOXX 50 Index Futures | Jun-15 | 350 | 35 |
| **Total Assets** | | | **35** |
| Liabilities | | | - |
| **Total Liabilities** | | | **-** |
| **Net Futures** | | | **35** |

**Forward currency contracts**
The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling.

| Settlement Date | Currency Bought '000 | Currency Sold '000 | Asset £'000 | Liability £'000 |
|---|---|---|---|---|
| Up to 1 month | GBP 7,154 | EUR 9,050 | 0 | (23) |
| Up to 3 months | GBP 25,062 | JPY 4,000,000 | 254 | - |
| | | | **254** | (23) |
| **Net Forward Currency Contracts at 31 March 2016** | | | | **231** |
| Prior Year Comparative | | | | |
| Open Forward Currency Contracts at 31 March 2015 | | | 2,647 | (449) |
| Net Forward Currency Contracts at 31 March 2015 | | | | **2,198** |

## 13c Summary of Managers' Portfolio Values at 31 March 2015

| | 2015/16 £'m | 2015/16 % | 2014/15 £'m | 2014/15 % |
|---|---|---|---|---|
| **Externally Managed** | | | | |
| JP Morgan (European equities) | 213 | 3.1 | 220 | 3.2 |
| Nomura (Japan) | 311 | 4.6 | 317 | 4.6 |
| Schroders (fixed income) | 242 | 3.6 | 237 | 3.5 |
| Legal & General (fixed income) | 277 | 4.1 | 270 | 3.9 |
| Unigestion (European Equities and Pooled Emerging Markets) | 266 | 3.9 | 262 | 3.8 |
| M&G (UK Equities) | 150 | 2.2 | 168 | 2.5 |
| M&G (Global Emerging Markets) | 127 | 1.9 | 138 | 2.0 |
| TT International (UK Equities) | 204 | 3.0 | 197 | 2.9 |
| Blackrock (UK Equities) | 212 | 3.1 | 212 | 3.1 |
| Blackrock (Pacific Rim) | 118 | 1.7 | 133 | 1.9 |
| Blackrock (QIF) | 71 | 1.0 | 66 | 1.0 |
| Newton (UK Equities) | 235 | 3.4 | 216 | 3.2 |
| Amundi (Global Emerging Markets) | 125 | 1.8 | 137 | 2.0 |
| Maple-Brown Abbot (Pacific Rim Equities) | 122 | 1.8 | 136 | 2.0 |
| State Street Global Advisor (Passive Manager) | 1,614 | 23.8 | 1,782 | 26.0 |
| | **4,287** | **63.0** | **4,491** | **65.6** |
| **Internally Managed** | | | | |
| UK Equities | 322 | 4.7 | 328 | 4.8 |
| European Equities | 179 | 2.6 | 186 | 2.7 |
| Property (Direct) | 377 | 5.5 | 382 | 5.6 |
| Property (Indirect) | 214 | 3.1 | 176 | 2.6 |
| Private Equity | 456 | 6.7 | 394 | 5.7 |
| Hedge Funds | 232 | 3.4 | 268 | 3.9 |
| Infrastructure | 255 | 3.7 | 187 | 2.7 |
| Opportunities | 394 | 5.8 | 363 | 5.3 |
| Global Emerging Markets | 25 | 0.4 | - | - |
| Short Term Deposits and Other Investments | 76 | 1.1 | 78 | 1.1 |
| | **2,530** | **37.0** | **2,362** | **34.4** |
| | **6,817** | **100.0** | **6,853** | **100.0** |

The following holdings each represent more than 5% of the net assets of the Fund:

| | 2015/16 £'m | 2015/16 % | 2014/15 £'m | 2014/15 % |
|---|---|---|---|---|
| SSGA Pooled UK Index Linked Gilts | 603 | 8.8 | 637 | 9.3 |
| SSGA USA Equity Tracker | 548 | 8.0 | 544 | 7.9 |
| SSGA Pooled UK Equities | 381 | 5.6 | 445 | 6.5 |

## 13d Stock lending

As at 31 March 2016, £149.3 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £161.7 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £1.0 million and is included within 'Other' Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

The risks associated with Stock Lending are set out in the Fund's 'Statement of Investment Principles'.

# Notes to the Accounts

## 14. Financial Instruments

### 14a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

| 31 March 2016 | Loans and Receivables £'000 | Financial Liabilities at Amortised Cost £'000 | Fair Value Through Profit and Loss £'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Equities | | | 2,020,418 |
| Pooled Investment Vehicles | | | 4,264,626 |
| Derivatives | | | 254 |
| Cash Deposits | 40,031 | | |
| Other Investment Balances | 114,660 | | |
| Long Term and Current Assets | 48,506 | | |
| **Total Financial Assets** | **203,197** | **-** | **6,285,298** |
| | | | |
| **Financial Liabilities** | | | |
| Other Investment Balances | | (4,527) | |
| Current Liabilities | | (11,212) | |
| **Total Financial Liabilities** | **-** | **(15,739)** | **-** |
| | | | |
| **Net** | **203,197** | **(15,739)** | **6,285,298** |

| 31 March 2015 | Loans and Receivables £'000 | Financial Liabilities at Amortised Cost £'000 | Fair Value Through Profit and Loss £'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Equities | | | 2,053,353 |
| Pooled Investment Vehicles | | | 4,275,613 |
| Derivatives | | | 2,233 |
| Cash Deposits | 47,098 | | |
| Other Investment Balances | 92,169 | | |
| Long Term and Current Assets | 51,290 | | |
| **Total Financial Assets** | **190,557** | **-** | **6,331,199** |
| | | | |
| **Financial Liabilities** | | | |
| Other Investment Balances | | (24,868) | |
| Creditors | | (16,393) | |
| **Total Financial Liabilities** | **-** | **(41,261)** | **-** |
| | | | |
| **Net** | **190,557** | **(41,261)** | **6,331,199** |

*To allow reconciliation to the Net Asset Statement and for ease to the reader, all long term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.*

### 14b. Net gains and losses on financial instruments

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Financial Assets** | | |
| Fair Value Through Profit and Loss | (43,802) | 602,616 |
| Loans and Receivables | (326) | 380 |
| **Total Financial Assets** | **(44,128)** | **602,996** |
| | | |
| **Financial Liabilities** | | |
| Financial Liabilities at Amortised Cost | 693 | (492) |
| Loans and Receivables | - | - |
| **Total Financial Liabilities** | **693** | **(492)** |
| | | |
| **Net** | **(43,435)** | **602,504** |

### 14c. Fair value of financial instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value and for those which aren't, their amortised cost is considered to be equivalent to an approximation of fair value.

### 14d. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classed into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

**Level 2**

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

**Level 3**

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

| Values at 31 March 2016 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial Assets at Fair Value Through Profit and Loss | 4,992,756 | 63,959 | 1,228,583 | 6,285,298 |
| **Total Financial Assets** | **4,992,756** | **63,959** | **1,228,583** | **6,285,298** |

| Values at 31 March 2015 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial Assets at Fair Value Through Profit and Loss | 5,173,596 | 57,365 | 1,100,238 | 6,331,199 |
| **Total Financial Assets** | **5,173,596** | **57,365** | **1,100,238** | **6,331,199** |

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

The table above provides an analysis of the financial assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

A reconciliation of fair value measurements in Level 3 is set out below:

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Opening Balance** | 1,100,238 | 902,823 |
| Aquisitions | 207,933 | 208,094 |
| Disposal Proceeds | (54,992) | (84,591) |
| Total Gain/(Losses) Included in the Fund Account: | | |
| On Assets Sold | 3,440 | 1,890 |
| On Assets Held at Year End | (28,036) | 72,022 |
| **Closing Balance** | **1,228,583** | **1,100,238** |

## 15. Nature and Extent of Risks Arising from Financial Instruments

**Risk and risk management**
The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required, particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations, are reflected in the make up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows, enable it to adopt a long term investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities, while equities (both passive and active), private equity and direct property, are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner. The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers.
- Explicit mandates governing the activity of Investment Managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party.
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

### 15a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability.

| | Value March 2016 £'m | Potential Variance % | Value on Increase £'m | Value on Decrease £'m |
|---|---|---|---|---|
| UK Equities (all Equities include Pooled Vehicles) | 1,496 | 19.0 | 1,780 | 1,211 |
| US Equities | 566 | 17.0 | 663 | 470 |
| European Equities | 626 | 19.0 | 745 | 507 |
| Japan Equities | 328 | 20.0 | 394 | 263 |
| Emerging Markets Equities including Pac Rim | 638 | 30.0 | 829 | 446 |
| UK Fixed Income Pooled Vehicles | 520 | 11.0 | 577 | 462 |
| UK Index Linked Pooled Vehicles | 603 | 9.0 | 657 | 549 |
| Pooled Property | 200 | 12.5 | 225 | 175 |
| Private Equity | 456 | 25.0 | 570 | 342 |
| Hedge Funds | 232 | 9.0 | 253 | 211 |
| Infrastructure | 255 | 18.5 | 302 | 208 |
| Other Alternative Assets | 365 | 14.0 | 416 | 314 |
| Short Term Deposits and Other Investment Balances | 188 | 0.0 | 188 | 188 |
| **Total** | **6,473** | | | |

| | Value March 2015 £'m | Potential Variance % | Value on Increase £'m | Value on Decrease £'m |
|---|---|---|---|---|
| UK Equities (all Equities include Pooled Vehicles) | 1,569 | 19.0 | 1,867 | 1,271 |
| US Equities | 563 | 17.0 | 659 | 467 |
| European Equities | 613 | 19.0 | 729 | 496 |
| Japan Equities | 402 | 20.0 | 482 | 321 |
| Emerging Markets Equities including Pac Rim | 685 | 30.0 | 891 | 480 |
| UK Fixed Income Pooled Vehicles | 507 | 11.0 | 563 | 451 |
| UK Index Linked Pooled Vehicles | 637 | 9.0 | 695 | 580 |
| Pooled Property | 169 | 12.5 | 190 | 148 |
| Private Equity | 394 | 25.0 | 492 | 295 |
| Hedge Funds | 268 | 9.0 | 292 | 244 |
| Infrastructure | 187 | 18.5 | 221 | 152 |
| Other Alternative Assets | 336 | 14.5 | 384 | 287 |
| Short Term Deposits and Other Investment Balances | 151 | 0.0 | 151 | 151 |
| **Total** | **6,481** | | | |

# Notes to the Accounts

## 15b. Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Pooled Fixed Income Vehicles are responsible for managing credit risk, section 15a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding under its treasury management arrangements as at 31 March 2016 was £40.0 million (31 March 2015 £47.1 million). This was held in instant access accounts with the following institutions:

| | Rating S&P | Balances as at 31 March 2015 £'000 | Balances as at 31 March 2016 £'000 |
|---|---|---|---|
| Royal Bank of Scotland | Long BBB+ Short A-2 | 1 | 0 |
| Lloyds Bank | Long A Short A-1 | 45,686 | 38,945 |
| Northern Trust | Long AA- Short A-1+ | 0 | 1 |
| Iceland Escrow Account | | 1,411 | 1,085 |
| **Total** | | **47,098** | **40,031** |

## 15c. Liquidity Risk

The Fund's key priority is to pay pensions in the long and short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

The Fund has a cash balance at 31 March of £40.0 million. The Fund also has £4,918 million in assets which could be realised in under 7 days notice, £721 million in assets which could be realised in under 90 days notice and £646 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund has a net withdrawal for 2015/16 in its dealing with members of £84 million and management expenses of £32 million, this is offset by investment income of £140 million.

## 15d. Interest Rate Risk

Interest rates primarily affect the Fund's liabilities through the transmission mechanism from interest rates to government bond yields and ultimately the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20%. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

## 16. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The most recent Triennial Valuation by the actuary was as at 31 March 2013, when the funding level was 76% of projected actuarial liabilities (2010 78%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 22 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are:

- to enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- to manage employers' liability effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due
- to maximise the returns from investments within reasonable risk parameters.

**Summary of key whole Fund assumptions used for calculating funding target**

| | 31 March 2013 % p.a. |
|---|---|
| **Long Term Gilt Yields** | |
| Fixed Interest | 3.2 |
| Index-linked | (0.4) |
| **Funding Target Financial Assumptions** | |
| Investment Return | 4.6 |
| CPI Price Inflation | 2.6 |
| Salary Increases | 4.1 |
| Pension Increases | 2.6 |
| **Long Term Future Service Accrual Financial Assumptions** | |
| Investment Return | 5.6 |
| CPI Price Inflation | 2.6 |
| Salary Increases | 4.1 |
| Pension Increases | 2.6 |

## 17. Investment Liabilities

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Derivative Contracts | 104 | - |
| Amounts Due to Stockbrokers | 4,423 | 24,868 |
| | **4,527** | **24,868** |

## 18. Long Term Assets

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Assets Due in More than One Year | 9,236 | 11,655 |
| | **9,236** | **11,655** |
| **Relating to:** | | |
| Central Government Bodies | 2,767 | 3,689 |
| Other Local Authorities | 5,548 | 6,733 |
| Public Corporations and Trading Funds | 441 | 548 |
| Bodies External to General Government | 480 | 685 |
| | **9,236** | **11,655** |

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the Fund. Year 1 is shown as a current asset, but years 2 onwards are included above. Also included are future payments of pension strain to be paid by employers in 2017/18 onwards.

# Notes to the Accounts

## 19. Current Assets and Liabilities

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **Assets** | | |
| Contributions Due | 20,636 | 21,883 |
| Amounts Due from External Managers | 921 | 1,126 |
| Accrued and Outstanding Investment Income | 367 | 543 |
| Sundries | 15,889 | 13,352 |
| Provision for Bad Debts | (166) | (32) |
| Cash at Bank | 1,623 | 2,763 |
| | **39,270** | **39,635** |
| Relating to: | | |
| Central Government Bodies | 1,856 | 1,893 |
| Other Local Authorities | 14,761 | 15,892 |
| NHS | 2 | 2 |
| Public Corporations and Trading Funds | 170 | 202 |
| Bodies External to General Government | 22,481 | 21,646 |
| | **39,270** | **39,635** |
| **Liabilities** | | |
| Retirement Grants Due | 2,372 | 2,185 |
| Provisions | 247 | 369 |
| Miscellaneous | 8,593 | 13,839 |
| | **11,212** | **16,393** |
| Relating to: | | |
| Central Government Bodies | 2,570 | 2,290 |
| Other Local Authorities | 1,920 | 4,129 |
| Public Corporations and Trading Funds | 171 | 23 |
| Bodies External to General Government | 6,551 | 9,951 |
| | **11,212** | **16,393** |
| **Total Current Assets and Liabilities** | **28,058** | **23,242** |

'Sundries' mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

'Provision for Bad Debt' relates to property rental income, and is based on an assessment of all individual property debts as at 31 March 2016.

The main components of 'Miscellaneous Liabilities' are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imbursement.

## 20. Contractual Commitments

Commitments for investments amounted to £325.41 million as at 31 March 2016 (2014/15 £386.17 million). These commitments relate to Private Equity £164.69 million, Infrastructure £60.58 million, Opportunities £20.48 million, Indirect Property £79.66 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

## 21. Contingent Assets

When determining the appropriate Fund policy for employers, the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations, is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging 'contingent assets' in the form of bonds/indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administering Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

## 22. Related Party Transactions

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.3 million (2015 £3.4 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £16.0 million (2015 £15.8 million) and a creditor of £259,834 as at 31 March 2016 (2015 £2 million).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2016 payroll are included within the debtors figure in note 19.

A specific declaration has been received from Pensions Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular Scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Knowsley Town Council, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such, no related party transactions have been declared.

Peter Wallach, Director of Pensions, acts in an un-remunerated board advisory capacity on three investment bodies in which the Fund has an interest, Eclipse (£6.6 million), Standard Life (£15.5 million) and F&C (£21.9 million).

Susannah Friar, Property Manager, acts in an un-remunerated board advisory capacity on one investment body in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£7.5 million), by whom travel expenses and accommodation were paid.

Each member of the Pension Fund Committee and Pension Board Members formally considers conflicts of interest at each meeting.

# Notes to the Accounts

**Key Management Personnel**

The remuneration paid to the Fund's senior employees is as follows:

| Financial Year 2015/16 | Employment Period | Salary £ | Pension Contributions £ | Total Including Pension Contrbutions £ |
|---|---|---|---|---|
| Director of Pensions | 01/04/15 - 31/03/16 | 79,277 | 10,782 | **90,059** |
| Senior Investment Manager | 01/04/15 - 31/03/16 | 56,965 | 7,747 | **64,712** |

| Financial Year 2014/15 | Employment Period | Salary £ | Pension Contributions £ | Total Including Pension Contrbutions £ |
|---|---|---|---|---|
| Director of Pensions | 01/04/14 - 31/03/15 | 73,474 | 9,992 | **83,466** |
| Senior Investment Manager | 01/04/14 - 31/03/15 | 56,046 | 7,622 | **63,668** |

## 23. Additional Voluntary Contribution Investments

| | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| **The Aggregate Amount of AVC Investments is as Follows:** | | |
| Equitable Life | 2,158 | 2,297 |
| Standard Life | 6,064 | 6,204 |
| Prudential | 5,525 | 5,417 |
| | **13,747** | **13,918** |
| **Changes During the Year were as Follows:** | | |
| Contributions | 2,026 | 1,869 |
| Repayments | 2,241 | 2,493 |
| Change in Market Values | 44 | 901 |

# Statement of Responsibilities

**The Authority's Responsibilities**

The Council as Administering Authority of Merseyside Pension Fund is required:

- To make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer.
- To manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

**Section 151 Officer Responsibilities**

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this statement of accounts, the Section 151 Officer has:

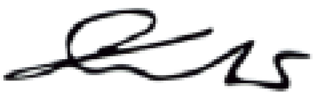
- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Code

The Section 151 Officer has also:

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

**The Section 151 Officer's Certificate**

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2016, and its income and expenditure for the year then ended.



**Tom Sault**
**Section 151 Officer**
**16 September 2016**

# Audit Report

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL METROPOLITAN BOROUGH COUNCIL ON THE CONSISTENCY OF THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE MERSEYSIDE PENSION FUND ANNUAL REPORT

The accompanying Merseyside Pension Fund financial statements of Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated X September 2016. The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 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.

**Head of Financial Services (Section 151 Officer's) responsibilities for the pension fund financial statements in the pension fund annual report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

**Auditor's responsibility**

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the Merseyside Pension Fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Merseyside Pension Fund financial statements. The other information consists of Management Structure; Chair's Introduction; Management Report; Pension Board Report; Membership Statistics; Scheme Administration Report; Investment Report; and Financial Performance.

**Opinion**

In our opinion, the Merseyside Pension Fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

**Jackie Bellard**
for and on behalf of Grant Thornton UK LLP,
Appointed Auditor
4 Hardman Square
Spinningfields
Manchester
M3 3EB

September 2016

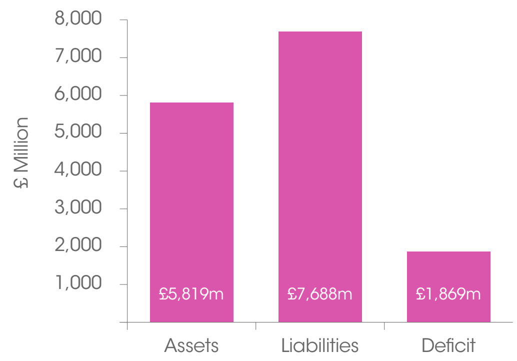
# Consulting Actuary's Statement

**Accounts for the Year Ended 31 March 2016**
**Statement by the Consulting Actuary**

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

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

On the basis of the assumptions adopted, the Fund's assets of £5,819 million represented 76% of the Fund's past service liabilities of £7,688 million (the 'Funding Target') at the valuation date. The deficit at the valuation was therefore £1,869 million.




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

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 80% with a resulting deficit of £1,456 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £76m per annum increasing at 4.1% per annum (equivalent to approximately 9.1% of projected Pensionable Pay at the valuation date) for 22 years if all assumptions are borne out in practice.

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

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

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

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

| | For past Service Liabilities (Funding Target) per annum | For Future Service Liabilities (Common Contribution Rate) |
|---|---|---|
| Rate of Return on Investments (Discount Rate) | 4.6% | 5.6% |
| Rate of Pay Increases* | 4.1% | 4.1% |
| Rate of Increases in Pensions in Payment (In Excess of Guaranteed Minimum Pension) | 2.6% | 2.6% |

**Allowance was also made for short term public sector pay restraint over a 3 year period.*

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

| | 31 March 2015 | 31 March 2016 |
|---|---|---|
| Rate of Return on Investments (Discount Rate) | 3.3% | 3.6% |
| Rate of Pay Increases | 3.5%* | 3.5%* |
| Rate of Increases in Pensions in Payment (In Excess of Guaranteed Minimum Pension) | 2.0% | 2.0% |

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

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

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £9,477 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£462 million. Adding interest over the year increases the liabilities by c£312 million. The net effect of allowing for benefits accrued/paid over the period decreases the liabilities by c£35million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £9,292 million.

**Paul Middleman**
**Fellow of the Institute and Faculty of Actuaries**
**Mercer Limited**
**June 2016**

# Appendix A

Scheme employers with active members as at 31 March 2016

**Scheduled Bodies** (33)

Billinge Chapel End Parish Council
Birkenhead Sixth Form College
Carmel College
Chief Constable
Cronton Parish Council
Edsential SLE
Halewood Town Council
Hugh Baird College
King George V College
Knowsley Community College
Knowsley M.B.C.
Knowsley Town Council
Liverpool City Council
Liverpool John Moores University
Merseyside Fire & Rescue Authority
Merseytravel (MPTE)
Merseyside Waste Disposal Authority
Office of the Police and Crime Commissioner for Merseyside (OPCCM)
Prescot Town Council
Rainford Parish Council
Rainhill Parish Council
School Improvement Liverpool Ltd.
Sefton M.B.C.
Shared Education Services Ltd.
Southport College
St. Helens College
St. Helens M.B.C.
The ACC Liverpool Group
The City of Liverpool College
Whiston Town Council
Wirral Council
Wirral Evolutions Ltd.
Wirral Metropolitan College

**Scheduled Bodies (Academies)** (59)

Academy of St. Francis of Assisi
Bellerive FCJ Catholic College
Birkdale High School
Birkenhead High School Academy
Blue Coat School (Academy)
Calday Grange Grammar School
Chesterfield High School
Childwall Sports & Science Academy
De la Salle Academy
Deyes High School
Emslie Morgan Academy
Enterprise South Liverpool Academy
Everton Free School
Finch Woods Academy
Formby High School
Greenbank High School
Halewood Academy Centre for Learning
Harmonize Academy
Hawthornes Free School
Heygreen Community Primary (Academy)
Hilbre High School (Academy)
Hillside High School (Academy)
Hope Academy
Kings Leadership Academy (Liverpool)
Kirkby High School
Knowsley Lane Primary School (Academy)
Litherland High School (Academy)
Liverpool College (Academy)
Liverpool Life Science UTC
Lord Derby Academy
Maghull High School
North Liverpool Academy
Oldershaw Academy
Our Lady of Pity (Academy)
Park View Academy
Prenton High School for Girls
Rainhill St Anns CE Primary School (Academy)
Range High School
St. Anselms College
St. Edwards College
St. Francis Xavier's College (Academy)
St. John Plessington Catholic College
St. Margaret's Church of England Academy
St Mary & St Thomas CE Primary School (Academy)
St. Michael's C of E High School (Academy)
St. Silas C of E Primary School (Academy)
The Belvedere Academy
The Birkenhead Park School
The Kingsway Academy
The Studio (Academy)
The Sutton Academy
Townfield Primary
Upton Hall School
Weatherhead High School
West Derby School (Academy)
West Kirby Grammar School
Wirral Academy for Girls
Wirral Grammar Boys (Academy)
Woodchurch High School (Academy)

## Admission Bodies (Community) (34)

Age Concern - Liverpool
Arriva North West
Association of Police Authorities
Berrybridge Housing Ltd.
Birkenhead School (2002)
Care Quality Commission
Catholic Children's Society
CDS Housing
Cobalt Housing Ltd.
Glenvale Transport Ltd/Stagecoach
Greater Hornby Homes
Greater Merseyside Connexions
Helena Partnerships Ltd.
Lee Valley Housing Association Ltd.
Liverpool Hope University
Liverpool Housing Trust
Liverpool Mutual Homes Ltd.
Local Government Association
Merseyside Lieutenancy
Merseyside Welfare Rights
North Huyton Communities Future
North Liverpool Citizens Advice Bureau
One Vision Housing Ltd.
Partners Credit Union
Port Sunlight Village Trust
Sefton Education Business Partnership
South Liverpool Housing Ltd.
Southern Neighbourhood Council
Vauxhall Neighbourhood Council
Village Housing Association Ltd.
Wavertree Citizens Advice Bureau
Welsh Local Government Association
Wirral Autistic Society
Wirral Partnership Homes

## Admission Bodies (Transferee) (44)

Addaction Limited
Agilisys Limited
Amey Services Ltd. - Highways
arvato Public Sector Services Limited
Balfour Beatty PFI SEN School
Balfour Beatty Workplace Ltd.
BAM Nuttall Ltd.
Birkenhead Market Services Ltd.
Bouygues E&S FM UK Ltd
City Health Care Partnership CIC
Compass Contract Services
Compass (Scolarest) Liverpool Schools
Compass (Scolarest) Wirral Schools
Elite Cleaning & Environmental Services Ltd.
Friends of Birkenhead Council Kennels
Geraud Markets Liverpool Ltd.
Glendale (Liverpool Parks Services) Ltd.
Graysons Education Ltd.
Hall Cleaning Services
Hochtief Liverpool Schools
Hochtief Wirral Schools
Interserve (Facilities Management) Ltd.
KGB Cleaning & Support Services Ltd.
Kingswood Colomendy Ltd.
Knowsley Youth Mutual Ltd.
Lifeline Project Ltd.
Liverpool Vision Limited
Mack Trading
Mellors Catering - Birkdale
Mellors Catering - St. Anns
Mellors Catering - St Mary & St Thomas
Mellors Catering - St Paul & St Timothy
Mosscroft Childcare Ltd.
New Brighton Day Nursery Ltd.
Northgate Managed Services Ltd.
Sefton New Directions Ltd.
Shap Ltd.
SSE Contracting Ltd.
Tarmac Trading Ltd.
Taylor Shaw (Grange)
Taylor Shaw (Meols Cop)
Taylor Shaw (Raeburn)
Taylor Shaw (Range)
Veolia ES Merseyside & Halton

# Appendix B
Pensions Committee Items

### 22 June 2015
LGPS Update
Pension Fund Budget
Tax Management Update
Annual Investment Performance
Treasury Management Annual Report
Pension Board Update
NAPF Annual Conference
LGC Investment Summit
IMWP Minutes 16/04/2015

### 14 September 2015
Audit Findings Report
Pension Fund Accounts 2014/15
Draft Annual Report
LGPS Update
Government Consultation on Pensions Taxation
Termination Policy
LGE Fundamental Training
Annual Employers' Conference
LAPFF Annual Conference
Elected Member Educational Event
Bond Reviews
IMWP Minutes 19 June 2015
GRWP Minutes 30 June 2015

### 28 September 2015 (Special)
Annual Report and Statement of Accounts 2014/15 - Merseyside Pension Fund

### 16 November 2015
LGPS Update
The Pensions Regulator Breaches Policy
Pooling Consultation
Internal Dispute Resolution Procedure
Governance Policy
Responsible Investment and Climate Risk
Property: Appointment of Strategic Advisor
Monitoring - Training, Gifts & Hospitality Returns
Authorised Signatories
IMWP Minutes

### 25 Januray 2016
LGPS Update
Pooling Consultation
Pension Fund Budget
Member Development Programme 2016
LGPS Investment Regulations
Property Management Contract
Treasury Management Strategy
LGC Investment Conference
Elected Member Educational Event
Local Investment
IMWP Minutes 10/12/15
Property Arrears

### 21 March 2016
Audit Plan 2015/16
LGPS Update
Pooling Consultation
Property Valuer Contract
Carbon Risk
Tunsgate Quarter Update
LGPS Trustees Conference
PLSA Local Authority Conference
Pension Board Minutes 14/07/15 & 13/10/15
IMWP Minutes 10/03/16
GRWP Minutes 28/01/16

## Attendance Record 2015 - 2016

| | Pensions Committee | | | | | | GRWP | | IMWP | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 22 Jun | 14 Sep | 28 Sep | 16 Nov | 25 Jan | 21 Mar | 30 Jun | 28 Jan | 16 Apr | 19 Jun | 17 Sep | 8 Oct | 10 Dec | 10 Mar |
| Cllr Paul Doughty (Chair) | • | • | • | • | • | • | • | • | • | • | • | | • | • |
| Cllr Ann McLachlan (Vice-Chair) | • | • | • | • | • | • | • | | | • | | • | | |
| Cllr George Davies | • | • | • | • | • | • | | | | • | | | | |
| Cllr Treena Johnson | • | # | | • | • | • | • | | | • | | • | | |
| Cllr Adrian Jones | • | • | • | | • | | • | | • | • | • | | • | • |
| Cllr Brian Kenny | • | • | | | • | • | | | | • | • | | • | • |
| Cllr Geoffrey Watt (Spokesperson) | • | • | • | • | • | • | • | • | • | | • | • | • | • |
| Cllr Kathy Hodson | # | • | # | # | • | • | | | | | | | | |
| Cllr Cherry Povall, JP | • | • | • | • | • | • | | • | | • | • | | • | |
| Cllr Pat Cleary | • | • | • | • | • | • | | | | | • | | • | • |
| Cllr Nick Crofts* (Liverpool City Council) | | | | | • | | | | | | | | | |
| Cllr John Fulham* (St Helens Council) | | • | | | • | | | | | • | | | | |
| Cllr William Weightman* (Knowsley Council) | | | | | | | | | | | | | | |
| Cllr Paulette Lappin* (Sefton Council) | • | | • | | | • | • | | | | | • | • | |
| Patrick Cleary* (appointed Dec 2015) | | | | | | • | | | | | | | | |
| Brian Ellis* (Co-Optee 1/1/16) | | | | | | • | | | | | | | | |
| Cllr Mike Hornby (stood down 16/3/15) | | | | | | | | | | | | | | |
| Cllr Harry Smith (stood down 11/5/15) | | | | | | | | | | | | | | |
| Paul Wiggins (stood down 23/6/15) | | | | | | | | | • | | | | | |
| Phil Goodwin (stood down 23/6/15) | | | | | | | | | • | | | | | |

#Deputy Attended
*Co-Optee

#Cllr Treena Johnson substituted by Cllr Anita Leech
#Cllr Kathy Hodson substituted by Cllr John Hale

#Cllr Kathy Hodson substituted by Cllr David M Elderton
#Cllr Kathy Hodson substituted by Cllr Adam Sykes

| | Conferences | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NAPF Gloucester | LGC Newport | NAPF ANNUAL CONFERENCE Manchester | EMEE HMS London | ANNUAL EMPLOYERS CONFERENCE | ANNUAL LAPFF Bournemouth | BLACKROCK TRAINING DAY | 330 CONSULTING EMEE London | LGC Carden Park |
| | 19 - 21 May | 9 - 10 Sep | 15 - 17 Oct | 7 Oct | 26 Nov | 3 - 5 Dec | 27 Jan | 16 - 17 Feb | 3 - 6 Mar |
| Cllr Paul Doughty (Chair) | • | • | • | • | • | • | | • | • |
| Cllr Ann McLachlan (Vice-Chair) | | | | | | | | • | |
| Cllr George Davies | | | | | | | • | • | |
| Cllr Treena Johnson | | | • | | | | • | | |
| Cllr Adrian Jones | | | | | | | • | | |
| Cllr Brian Kenny | | | • | • | • | | | | • |
| Cllr Geoffrey Watt (Spokesperson) | • | • | • | • | • | • | • | | • |
| Cllr Kathy Hodson | | | | | | | | | |
| Cllr Cherry Povall, JP | | • | • | | | | • | | • |
| Cllr Pat Cleary | | | | | | | • | | |
| Cllr Nick Crofts* (Liverpool City Council) | | | | | | | | | |
| Cllr John Fulham* (St Helens Council) | | | • | | | | | | |
| Cllr William Weightman* (Knowsley Council) | | | | | | | | | |
| Cllr Paulette Lappin* (Sefton Council) | | | • | | | | | | |
| Patrick Cleary* | | | | | | | | | |
| Brian Ellis* | | | | | | | | | |
| Cllr Mike Hornby (stood down 16/3/15) | | | | | | | | | |
| Cllr Harry Smith (stood down 11/5/15) | | | | | | | | | |
| Cllr Chris Carubia (stood down May 2015) | | | | | | | | | |
| Paul Wiggins (stood down 23/6/15) | | | | | | | | | |
| Phil Goodwin (stood down 23/6/15) | | | | | | | | | |

*Co-Optee

# Appendix C

## Information Contacts

| Position | Name | Telephone number |
|---|---|---|
| Director of Pensions | Peter Wallach | 0151 242 1309 |
| Principal Pension Officer | Yvonne Caddock | 0151 242 1333 |

| Area | Name | Telephone number |
|---|---|---|
| Accounts | Donna Smith | 0151 242 1312 |
| Investments | Leyland Otter | 0151 242 1316 |
| Member Services | Margaret Rourke/Sue Roberts | 0151 242 1369 |
| Benefits/Payroll | Barbara King/Keith Higgins | 0151 242 1354 |
| Operations (IT/Communications) | Guy Hayton | 0151 242 1361 |

| | | |
|---|---|---|
| **Resolution of Disputes** | | |
| Employer Decisions | Principal Pension Officer | 0151 242 1333 |
| Fund Decisions | Head of Benefits, Revenue & Customer Service | 0151 666 3056 |

| | | |
|---|---|---|
| **Scheme Employers Contacts** | | |
| Arriva North West | Tina Edwards | 0151 522 2807 |
| Knowsley MBC | Jaci Dick | 0151 443 5161 |
| Liverpool City Council | Richard Arnold | 0151 233 0375 |
| Liverpool John Moores University | Jayne Brown | 0151 231 8756 |
| Merseyside Fire & Rescue Service | Julie Murdoch | 0151 296 4245 |
| Merseytravel (MPTE) | Lynne Gogerty | 0151 330 1213 |
| Merseyside Waste Disposal Authority | Paula Pocock | 0151 255 2539 |
| Office of the Police and Crime Commissioner for Merseyside (OPCCM) | Karen Blake | 0151 777 8189 |
| Sefton MBC | Lynn Abbott | 0151 934 4126 |
| St. Helens MBC | Cathy O'Connor | 0174 467 6627 |
| Wirral Council | Jann Lindoe | 0151 691 8529 |

Merseyside
PENSION FUND

## Report & Accounts 2015/16

**Merseyside Pension Fund**
Castle Chambers
43 Castle Street
Liverpool
L2 9SH

Tel: 0151 242 1390
Email: mpfadmin@wirral.gov.uk
www.merseysidepensionfund.org.uk

Administering Authority Wirral Council

WIRRAL



FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C006509

141APR16GB

WIRRAL

**Transformation and Resources Department**

*Tom Sault*
*Section 151 Officer*
*Head of Finance*

Old Market House,
13 Hamilton Street,
Birkenhead,
Wirral.
CH41 5AL

to Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

date 1 September 2016

Dear Sirs

**Merseyside Pension Fund – Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with your audit of the financial statements of Merseyside Pension Fund ('the Fund') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the

event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

7. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund have been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

10. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

11. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

12. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

13. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

14. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

15. We confirm that we hold the rights and obligations to a share of the property holding 'The Fort' and that the value of this share within the Net Assets Statement accurately reflects our share of the valuation of this property.

**Information Provided**

16. We have provided you with:
    a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    b. additional information that you have requested from us for the purpose of your audit; and
    c. unrestricted access to persons from whom you determined it necessary to obtain audit evidence.

17. We have communicated to you all deficiencies in internal control of which management is aware.

18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

19. All transactions have been recorded in the accounting records and are reflected in the financial statements.

20. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
    a. management;
    b. employees who have significant roles in internal control; or
    c. others where the fraud could have a material effect on the financial statements.

21. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

22. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

23. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

24. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

25. We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

26. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Pensions Committee at its meeting on 19 September 2016 and by the Audit and Risk Management Committee at its meeting on 26 September 2016.

Yours faithfully

Signed ……………………………….
Name…Tom Sault…………………………
Position…………Section 151 Officer……………….
Date……26 September 2016……………………….

Signed ……………………………….
Name……………………………
Position……Chair of Audit and Risk Management Committee………….
Date………26 September 2016 …………………….

Signed on behalf of **Wirral Metropolitan Borough Council** as administering body of the **Merseyside Pension Fund.**

# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **INVESTMENT PERFORMANCE** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The report to Pensions Committee on the Fund's investment performance for the year to 31 March 2016 is attached as an appendix to this report.

### 2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund's investment performance is an important indicator of the extent to which the Fund's investment strategy is implemented successfully but should also be considered in the context of the Fund's liabilities.

### 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 Board Members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in assisting the administering authority.

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

## APPENDICES

Investment performance report

## BACKGROUND PAPERS/REFERENCE MATERIAL

## BRIEFING NOTES HISTORY

| Briefing Note | Date |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
| --- | --- |
| | |

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# WIRRAL COUNCIL

## PENSIONS COMMITTEE

## 4 JULY 2016

| | |
|---|---|
| **SUBJECT:** | **INVESTMENT PERFORMANCE** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **STRATEGIC DIRECTOR<br>TRANSFORMATION & RESOURCES** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 This report sets out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2016 as computed and reported by the WM Company.

### 2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund returned 1.2 per cent in the financial year to the end of March 2016 compared to its bespoke benchmark return of -0.4 per cent, an outperformance of 1.6 per cent.

2.2. Over the financial year to the end of March 2016, asset markets were buffeted by concerns over slowing global growth and the response of many central banks acting over the year to support economic activity. At the beginning of the year investors were anguishing over a possible Grexit from the EU. Relief finally came in July when a resolution to the Greek bail-out program was accepted by both the Greek Government and its creditors. There were positive developments elsewhere in Europe as economic growth surprised on the upside, the unemployment rate moved lower.

In August, however, there was a sharp reversal in mood. Evidence of a slowing Chinese economy became more pronounced and this prompted the Chinese regime to pursue a significant devaluation of the Yuan. Slowing Chinese growth caused particular pain for the global commodity markets and the price of oil fall fell to a decade low of $27 per barrel. Amidst the turmoil the European Central Bank suggested that, if necessary, it could increase its quantitative easing programme. In the US the Federal Reserve postponed a rise in interest rates that had been anticipated for the September meeting; A small increase of a quarter of a percentage point to 0.5% was voted through in December once markets and commodity prices had rebounded from their low levels.

Concerns over China continued to dominate investors' attention through the first quarter of 2016 causing another sell off in equities and corporate bonds and a flight to the traditional 'safe-haven' assets such as developed market government bonds and precious metals. However, concerns abated somewhat into the end of quarter end as central banks detailed yet further monetary policy accommodation.

Against the challenging economic backdrop global equity markets struggled to deliver positive returns. For UK based investors the UK and European stock markets both delivered negative 4% returns, Asia Pacific including Japan delivered a negative return of 5.9% and Emerging Markets suffered the most with a negative return of 10%. Of the major regions only the US S&P 500 Index delivered positive returns of +4%, but this was driven by the strength of the US dollar against Pounds Sterling rather than a broad positive move in the underling US stock prices.

The property market sector continued to deliver strong returns rising over 11% during the year with capital value growth contributing 6.4% and income 5%.

In fixed income, renewed demand for safe-haven assets helped to send long-term interest rates near historic lows across developed markets. This drove a positive performance from UK government bonds with returns over the year of 2.9%.

2.3. The performance of the Fund against its benchmark and against CPI and UK average weekly earnings indices for 1, 3, and 5 year periods is tabulated below.

| | 1 Year | 3 Year | 5 Year |
|---|---|---|---|
| MPF | **1.2** | **6.5** | **7.1** |
| Benchmark | **-0.4** | **4.8** | **5.9** |
| Relative Return | **1.2** | **1.7** | **1.2** |
| CPI | **0.2** | **0.6** | **1.5** |
| Average Earnings | **1.8** | **2.5** | **1.6** |

**Source: WM Quarterly Review Periods to End March 2016**

## 3.0 RELEVANT RISKS

3.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund’s investment strategy which is established with a view to meeting the Fund’s liabilities over the long-term.

## 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 no implications arising directly from this report

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

8.1 The Fund returned 1.2 percent in the financial year ending March 31 2016 and outperformed its bespoke benchmark which returned -0.4 per cent over the comparable period.

## 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 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 Members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's liabilities over the long-term.

**REPORT AUTHOR:** Linda Desforges
*Investment Manager*
telephone: (0151) 242 1310
email: lindadesforges@wirral.gov.uk

**APPENDICES**

NONE

**BACKGROUND PAPERS/REFERENCE MATERIAL**

The WM Company – Merseyside Pension Fund Quarterly Performance Review.

**BRIEFING NOTES HISTORY**

| **Briefing Note** | **Date** |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| **Council Meeting** | **Date** |
|---|---|
| A report on the Fund's investment performance is brought annually to Pensions Committee | |

# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **LGPS UPDATE** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **HEAD OF PENSION FUND** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The LGPS update taken to the last Pensions Committee is attached as an appendix to this report.

### 2.0 BACKGROUND AND KEY ISSUES

2.1 The LGPS update is a standing item on the Pensions Committee agenda.

### 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 Board Members note the report.

**14.0 REASON/S FOR RECOMMENDATION/S**

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in supporting the administering authority.

**REPORT AUTHOR:** **PETER WALLACH**
Director of Pensions
telephone (0151) 2421309
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**APPENDICES**

LGPS update

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
| --- | --- |
| | |

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**WIRRAL COUNCIL**
**PENSION COMMITTEE**

**19 SEPTEMBER 2016**

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

## 1.0 EXECUTIVE SUMMARY

1.1 This report updates Members on the Fund's response to the statutory consultation on the LGPS amendment regulations. Fund Officers sought comments and approval from the Chairs of both the Pension Committee and Pension Board on the policy perspective within the response, before submission to the Department of Communities and Local Government on 19 August 2016. The submitted response is provided as Appendix One.

1.2 It also provides an overview of the development of an insolvency regime for further education colleges and sixth form colleges currently being appraised by the Department for Education.

## 2.0 BACKGROUND AND KEY ISSUES

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**Consultation: Local Government Pension Scheme (Amendment) Regulations**

2.1 Members previously noted the publication of the above consultation issued on 27 May 2016 at the last committee meeting on 4 July 2016 (minute 90 refers). The consultation can be found at the following link:

https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

2.2 Following the implementation of the regulations reforming the LGPS from 1 April 2014 there are provisions which require clarification, correction or revision to streamline administration and remove complexity. The proposed amendments address the technical anomalies and contain other policy developments to allow for the introduction of “New Fair Deal” principles where local authority staff are compulsorily transferred to a private sector employer.

2.3 The new provisions also make changes to money purchase benefits under the LGPS, allow for “exit credits” to be paid to leaving employers, and limit cases of automatic aggregation of benefits.

**New Fair Deal Principles**

2.4 Under the proposals, the current pension protection afforded to local authority staff who TUPE transfer to the private sector (through the Best Value Staff Transfers (Pension Direction) 2007) will be changed so that the “broadly comparable” option, whereby the new employer can provide broadly comparable pension benefits to the LGPS under their own private pension arrangement, will be removed. The Best Value direction will be revoked once the Fair Deal provisions are embedded within the LGPS.

2.5 The intention is for the current admitted body status framework to continue to apply; where the bodies are required to pay the appropriate amounts to the Fund to meet pensions that accrue for members they employ.

2.6 Under the proposed regulations, the costs of providing the LGPS to transferring staff should be clearly set out in the tender documentation.

2.7 For previous contracts involving members who were previously transferred out and joined a broadly comparable scheme, the draft regulations do not include a requirement that, at re-tender, the formerly transferred member must be brought back into the LGPS.

This is because the individual is not being transferred out of the public sector at that point, as they are employed by the current external provider. It will remain the case that new providers at re-tender can access the scheme if they wish via the admitted body status, but it is not a statutory requirement.

**Pension flexibilities**

2.8 The following proposals are designed to give members access to the pension freedoms that the Government announced in the 2014 Budget:

- Increased scope to access AVC arrangements from age 55, including the ability to draw down as income or as cash sums whilst continuing to accrue LGPS benefits.

- Removal of the need for the employer to give consent for the release of deferred benefits, extending the ability for members who stopped paying into the LGPS prior to 1 April 2014 to voluntarily access their benefits at age 55.

**Funding and 'exit credits'**

2.9 Under the 'exit credits' proposal, where an employer exits the LGPS as a result of it ceasing to employ active members, administering authorities of the LGPS would be required to pay a credit to that employer where there is a surplus in respect of the employer's pension liabilities. Currently, upon closure of a scheme employer, exit payments are only made from the employer to the LGPS where a deficit exists.

**Aggregation**

2.10 Under the current Regulations, aggregation of benefits accrued by LGPS members during different periods of employment happens automatically in certain circumstances. The new Regulations would reduce the circumstances under which automatic aggregation occurs removing a number of unintended complexities for administrators and members.

2.11 The Fund's response is attached as Appendix 1 highlighting a number of concerns, ambiguities and required clarifications with regard to the policy intent of several of the proposed amendments.

**Further Education Insolvency Proposals**

2.12 The Department for Education is consulting on provisions to establish a clear insolvency framework for further education colleges and sixth form colleges which will focus on learner protection, while recognising the interests of creditors and ensuring taxpayers do not provide indefinite financial support to failing colleges.

2.13 Further education and sixth form colleges, although classified as private sector bodies, must provide access to the LGPS for their employees as scheduled bodies. There is however concern amongst stakeholders as to the requirement for colleges to participate in a public sector taxpayer funded scheme where the risk of unfunded pension costs is ultimately borne by the taxpayer due to the absence of a Government guarantee.

2.14 The Further and Higher Education Act 1992 makes no provision for the treatment of insolvent colleges and it is unclear whether colleges which are statutory corporations fall within the scope of the Insolvency Act 1986 and whether they can be wound-up.

2.15 The Government's objective is to eliminate this uncertainty and to provide a framework to administer the closure of insolvent colleges and to highlight that the formal process will not increase the likelihood of a college becoming insolvent.

## 3.0 RELEVANT RISKS

3.1 If a college becomes insolvent and the Fund is unable to recover any pension deficit, the liability will fall on the other employers in the Fund. As the largest employers are the local authorities, ultimately the financial burden falls to the taxpayer.

## 4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

## 5.0 CONSULTATION

5.1 Not relevant for this report.

## 6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

## 7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

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

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

8.1 The table below sets out the number of further education and sixth form colleges that participate in MPF detailing the membership profile and the cumulative pension liabilities.

| | |
|---|---|
| Number of further education (FE) and sixth form (SF) colleges actively participating in fund | 9 |
| Total active members for all FE and SF colleges (as at 31st March 2016) | 1,756 |
| Total deferred members for all FE and SF colleges (as at 31st March 2016) | 1,492 |
| Total pensioner members for all FE and SF colleges (as at 31st March 2016) | 1,152 |
| Total pensions liability for all FE and SF colleges in fund (as at 2013 valuation) | £198,369,000 |
| Total ongoing funding deficit for all FE and SF colleges in fund (as at 2013 valuation) | £46,204,000 |
| Total funding deficit calculated for all FE and SF colleges in fund for annual accounts purposes - i.e. FRS17/ IAS19/ FRS102 (for most recent available year end - please state the year) | FRS17 @ 31/7/2015 £66,766,000 |

8.2 The Fair deal provisions will lead to an expansion of Scheme employers, increasing operational work as the removal of the broadly comparable provider option will result in the new employer having to obtain access to the LGPS in respect of first generation contracts.

8.3 There will be a need to communicate with employers to raise awareness of their obligations to protect employees' pension rights when outsourcing contracts.

## 9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

## 10 EQUALITIES IMPLICATIONS

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

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

## 11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

## 12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

## 13.0 RECOMMENDATION

13.1 That members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

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

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

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
|---|---|

| | |
|---|---|
| **The LGPS update is a standing item on the Pensions Committee agenda.** | |

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# Appendix One

Vincent Kiddell
Workforce, Pay and Pensions
Department for Communities & Local Government
SE Quarter Fry Building
2 Marsham Street
London
SW1P 4DF

Direct Line: 0151 242 1390

Please ask for: Yvonne Caddock

Date: 19 August 2016

Dear Mr Kiddell

**Local Government Pension Scheme (Amendment) Regulations Consultation Response**

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

The Fund is part of the Local Government Pension Scheme (LGPS) and the 5th largest of the 89 funds, with assets of £7bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 170 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 125,000 active, deferred and pensioner members.

## 1/ Fair Deal Proposals (Draft Regulations 3, 4 & 5)

MPF concurs with many of the Local Government Association's views on the general proposals contained in the consultation document and specifically supports the Government's extension of the reformed Fair Deal to the Local Government Pension Scheme.

The removal of the 'broadly comparable' option and the use of the current admitted body framework will avoid any ambiguity for staff in regard their future pension provision. It should also assist in simplifying the tender documentation for Scheme Employers when outsourcing contracts.

However, there are a number of concerns that the definition of "local government service" as proposed exceeds the provisions of the reformed Fair Deal and its intent to protect public sector employees.

### Employers under the remit of Fair Deal

As drafted the regulations impose pension protection requirements on all Scheme Employers, with the exception of Higher Education institutions, Further Education institutions and Police and Crime Commissioners (PCC).

This leads to the inclusion of many non-public sector organisations who participate in the LGPS as a 'community' admission body via an admission agreement. This will require them to ensure continued access to the LGPS for transferred staff in their new employment presenting a significant restriction to their flexibility, ability to outsource contracts and inevitably lead to increased financial pressures. Consequently it could lead to such bodies facing liquidation with irrecoverable pension debt.

It also appears contrary to the rationale used for excluding FE/HE institutions because they are classified as private sector bodies and PCCs from the proposals because they are not ‘best value’ authorities. On this basis, the same exclusion should also be extended to community admission bodies. Although to align with the New Fair Deal guidance it would appear equitable to include provisions within the regulations for employees of admission bodies who were originally public sector employees to have “protected transferee” status.

As PCCs are precepting authorities like local authorities it would seem logical that they are included in the bodies whose employees receive full protection under the amended Regulations when issued.

It would also be useful to have clarification of what “wholly or mainly employed on the delivery of the service or function transferred” in draft regulation 4 in proposed Regulation 3(1C) of the Local Government Regulations 2013 means in practice. There is a general view that “wholly and mainly engaged” means 50% of the employee’s time is allocated to the outsourced function but a prescriptive definition within the regulations would be welcome to ensure consistency across the LGPS.

**Impaired provision in comparison to 2007 Best Value Staff Transfers Pension Direction regarding an employer statutory duty**

Unlike the explicit requirement in the 2007 Directions Order there appears to be no specific condition in the draft amendments for a ceding employer to be responsible for ensuring pension protection of protected transferees, either as part of an initial contractual arrangement or subsequent tender exercise. It is surely necessary for the regulations to specify that this responsibility rests with the ceding employer at all times and remains enforceable against them by the protected transferees.

**The Revocation of the 2007 Directions Order**

It is noted that on the re-tender of staff who are already in a broadly comparable scheme, it is proposed that neither the existing contractor nor any new bidder would be required to adhere to reformed Fair Deal for any remaining employees originally transferred from the ceding scheme employer. This is because at the point of re-tender the individuals will not be members of the public sector. As a result, at any subsequent re-tender it appears that the incumbent provider and any new bidder would be obliged only to provide pension protection at the basic TUPE level.

It is clearly inequitable to provide reduced pension protection to employees transferred from the public sector and who continue to work in the delivery of a public service. If it transpires such employees cannot access the LGPS at subsequent re-tenders, the 2007 Directions Order should continue to apply.

## 2/ Additional Voluntary Contributions (AVCs) (Draft Regulations 8 & 9)

The extension of ‘Freedom and Choice’ reform is welcomed, as the greater flexibility for members to access their AVCs aligns the LGPS with the changes that have taken place in the UK pension arena since April 2015.

Although there is a concern that providers will levy excessive charges on members who utilise the flexible provisions, the outcome of the recent consultations on charges for Defined Contribution arrangements could be used to cap fees.

## 3/ Assumed Pensionable Pay (Draft Regulations 10)

The introduction of new paragraph 5A giving the employer the scope to utilise a different or nominal pay figure from that which regulation 21(4)(a) & (b) would produce is more equitable and will eradicate the anomalies that have arisen in relation to underestimated APP . However, to ensure fairness in circumstances where the APP should be lower the wording requires further amendment. This ability to use nominal or "as was" pay will be less administratively burdensome and is more transparent to members and dependants.

## 4/ Pension Accounts (Draft Regulation 11)

The return to the model which applied under 2008 LGPS regulations, where a member is given the option to aggregate their deferred and active pension accounts, is a welcomed amendment. From our experience, both administrators and scheme members have found the current situation of automatic aggregation unduly complicated and time consuming. However, administrators will still need to resolve ongoing issues with those individuals where the aggregation occurs between April 2014 and the effective date of the legislative change.

It is noted that while the proposed amendment would exclude 'optants out' from subsequently aggregating the earlier period (as per the former scheme provisions), it does not propose to re-introduce automatic aggregation where the deferred benefit is derived from a TUPE or TUPE-like transfer. We see no reason why it should not also be re-introduced in these circumstances as it will assist to streamline the administration process and remove the bureaucracy and complexity involved for the member who is transferred under comparable pay arrangements.

## 5/ Survivor Benefits (Draft Regulation 14)

The amendment is welcomed as this will now allow survivors to benefit from the ill health enhancement that was awarded to the originator, although I suggest clarification is provided whether it is the policy intent to backdate this provision to 1st April 2014 in order to include the enhancements for survivors' benefits in payment.

## 6/ Special Circumstances Where Revised Actuarial Valuations and Certificates Must Be Obtained (Draft Regulation 15)

In principle, we agree with payment of an 'exit credit' to employers that have ceased participation in a fund in order to avoid the situation of a 'trapped surplus'. This should put an administering authority in much a stronger position when negotiating and agreeing contribution rates before an employer exits the scheme.

The provision needs to be capable of being disapplied or limited in respect of arrangements already entered into by administering authorities and scheme employers prior to the commencement date. This is on the basis that stakeholders will have entered into funding and commercial arrangements reflecting the Scheme regulations extant at the time of the agreement. In addition in circumstances where the exiting body would not be liable for any deficit then the Fund would not expect to pay an exit credit where the commercial contract deals with pension costs on a pass through basis.

**Timing Issues (Draft Regulation 15)**

The requirement to pay the exit credit to an employer within one month of exit could be too short in practice; taking into account administrative issues that could cause delays or if there are cash flow or disinvestment issues that need to be addressed.

A solution is that the administering authority reserves the right to take longer than one month if circumstances dictate, with no need to seek the agreement of the exiting employer.

Given that the 2016 triennial valuation exercise is now well underway any subsequent changes to the Regulations incorporating exit credits will likely not be in place for administering authorities to include in their Funding Strategy Statements.

## 7/ Scheme Employers (Draft Regulation 21)

The wording of the regulation appears to suggest that an admission agreement can take effect before it is actually sealed by the relevant parties, whereas I understand the intent is that a retrospective commencement date can be documented within the agreement. The wording will need strengthening to ensure the agreements are completed before protections are in place for the transferring employees and other employers in the Fund.

## 8/ Early payment of pension for members aged 55 and older (Draft Regulation 24)

This provision provides a welcome change to allow members who left the LGPS with a deferred benefit under the 2007 Benefits Regulations to elect to receive an actuarially reduced pension between the ages of 55 and 59 (inclusive) without requiring their employer's consent. This would bring the provisions of the 2007 Benefit Regulations in line with the 2013 Regulations, where members reaching the age of 55 can already choose to receive an actuarially reduced pension without employer consent being needed. By making this change, all individuals leaving the LGPS on or after 1st April 2008 with a deferred benefit would have this option available to them.

MPF very strongly supports this option being extended to members who left the LGPS prior to 1st April 2008, requiring changes to both the 1995 and 1997 Regulation. The extension of this measure may help to prevent these members from transferring out their pension rights which often results in the payment of a less generous pension benefit.

However, The Fund Actuary has advised that cost neutrality is not achieved in all circumstances solely by the application of the early retirement reduction factors due to differences between GAD factors and local actuarial assumptions and as such the extension of the policy may benefit from a clear consideration of actuarial neutrality.

## 9/ Extension of underpin protections (Draft Regulation 25)

MPF has serious reservations about the suggested proposal that would potentially require LGPS funds to provide underpin protection to members who have transferred in benefits from other public service pension schemes. The reasons why we oppose the provision are as follows:

- It is being retrospectively imposed on LGPS administering authorities long after the reformed scheme's design and protections have been costed and implemented.

- The individuals transferring into the LGPS make a conscious decision to do so and in the LGPS benefit from a good career average pension scheme. Many of them already benefit from public sector transfer club protections.

- The protection will have cost implications for the scheme and could potentially make it more likely that the scheme will breach either of the cost control measures that impact upon the LGPS.

- The underpin is only rarely effective as, in the majority of cases, the LGPS career average benefits structure provides a higher pension than the final salary section would have done. Very few members will see an increase to their pension due to being protected under the underpin.

- At a time of unprecedented workloads in local authority pension teams, the change will involve significant resource in ascertaining to whom this protection needs to be extended. It is an additional burden that will have very little practical benefit for members to whom the underpin would be extended.

- The proposed amendment would provide the individual with higher protection than they would have had if they had re-joined their former public service pension scheme.

- Most significantly, it is not a protection that is required by the Public Service Pensions Act 2013. Subsection 18(5) of that Act says schemes 'may' provide protections to members who meet certain criteria, but there is no requirement to do so.. This extension of the underpin was not agreed by the LGPS's employee and employer representatives at the time of the scheme's reform, and imposing it upon the scheme goes against the principles of collective bargaining which have worked so productively in the LGPS in recent years.

Ultimately, this change would stand to cause significant administrative difficulty for very little gain – we ask the Department to reconsider their approach.

If, however, despite our opposition, the amendment is to be enacted then we would strongly suggest that it is not backdated, as benefits may already have been paid to such members.

## 10/ Conclusion

MPF supports the majority of the proposed changes in the Amendment Regulations and would appreciate if you consider the above comments before issuing the final regulations.

Yours sincerely

Y Caddock

Yvonne Caddock

Principal Pensions Officer

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# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **TREASURY MANAGEMENT ANNUAL REPORT** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **HEAD OF PENSION FUND** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The Treasury Management Annual Report taken to the last Pensions Committee is attached as an appendix to this report.

### 2.0 BACKGROUND AND KEY ISSUES

2.1 A report is brought annually to Pensions Committee.

### 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 Board Members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in assisting the administering authority.

**REPORT AUTHOR:** **PETER WALLACH**
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## APPENDICES

Treasury Management Annual report

## BACKGROUND PAPERS/REFERENCE MATERIAL

## BRIEFING NOTES HISTORY

| Briefing Note | Date |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
| --- | --- |
| | |

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# WIRRAL COUNCIL

## PENSIONS COMMITTEE

**4 JULY 2016**

| | |
|---|---|
| **SUBJECT:** | **TREASURY MANAGEMENT ANNUAL REPORT 2015/16** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES** |
| **KEY DECISION?** | **NO** |

**1.0 EXECUTIVE SUMMARY**

1.1 This report presents a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2015/16 financial year and reports any circumstances of non-compliance with the treasury management strategy and treasury management practices. It has been prepared in accordance with the revised CIPFA Treasury Management Code.

**2.0 BACKGROUND AND KEY ISSUES**

2.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Fund's investments and cash flows, its banking, money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

2.2 On 19 January 2015 Pensions Committee approved the Treasury Management Policy and Strategy 2015/16.

2.3 This report relates to money managed in-house during the period. It excludes cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

**TREASURY MANAGEMENT**

2.4 As at 31 March 2016, MPF had a cash balance of £40.0 million as against £50.9 million at 31 March 2015. All of these funds were held on call (instant access) accounts with Lloyds, Northern Trust, and an Icelandic escrow account.

2.5 Managing counterparty risk continued to be the overarching investment priority. Investments during the year included:
- Call (instant access) accounts and deposits with UK banks
- Investments in AAA rated money market funds with a constant Net Asset Value.

2.6 The rate at which MPF can invest money continues to be low, reflecting the record low Bank of England base rate which remained at 0.5% throughout 2015/16.

2.7 Over the twelve month period, WM calculated the cash performance to be 0.9% against a benchmark performance (7 day LIBID) of 0.3%.

2.8 Transactions were undertaken to reflect the day-to-day cash flows of the Fund, matching inflows from receipts to predicted outflows.

2.9 The detailed cash flow plans were managed so as to be compliant with the deposit limits agreed for individual financial institutions as reflected in the Treasury Management Policy for 2015/16, apart from the limit with our current bankers Lloyds. There was one incident where MPF was non-compliant with this limit due to the receipt of significant funds during the unpaid leave closedown. The anomaly was rectified the first working day, with no financial disadvantage to the Fund.

**3.0 RELEVANT RISKS**

3.1 All relevant risks have been discussed within section 2 of this report.

**4.0 OTHER OPTIONS CONSIDERED**

4.1 There are no other options considered in this report

**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 There are no outstanding previously approved actions

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

7.1 There are none arising out of this report.

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

8.1 The financial implications are stated above.

**9.0 LEGAL IMPLICATIONS**

9.1 The legal implications have been discussed within section 2 of 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 out of this report.

## 12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising out of this report.

## 13.0 RECOMMENDATION/S

13.1 That the Treasury Management Annual Report for 2015/16 be agreed.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate that they have properly fulfilled their responsibilities and enable those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid-year is met via regular reports to the Investment Monitoring Working Party (IMWP).

**REPORT AUTHOR:** **Donna Smith**
**Group Accountant**
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email: donnasmith@wirral.gov.uk

## APPENDICES

*None.*

## REFERENCE MATERIAL

*Code of Practice for Treasury Management in Public Services – CIPFA 2009*

## SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|---|---|
| **Pensions Committee** | **15 January 2013** |
| **Pensions Committee** | **24 June 2013** |
| **Pensions Committee** | **20 January 2014** |
| **Pensions Committee** | **1 July 2014** |
| **Pensions Committee** | **19 January 2015** |
| **Pensions Committee** | **22 June 2015** |
| **Pensions Committee** | **25 January 2016** |

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# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **GAD SECTION 13 DRY RUN REPORT** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The report noted by Pension Committee on 22 September is attached as an appendix to this report.

### 2.0 BACKGROUND AND KEY ISSUES

2.1 Set out in the report attached.

### 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 Board Members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in assisting the administering authority.

**REPORT AUTHOR:** **PETER WALLACH**
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## APPENDICES

GAD Section 13 Dry run report

## BACKGROUND PAPERS/REFERENCE MATERIAL

## BRIEFING NOTES HISTORY

| Briefing Note | Date |
|---|---|
| | |

## SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|---|---|
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# WIRRAL COUNCIL

## PENSION COMMITTEE

## 19 SEPTEMBER 2016

| | |
|---|---|
| **SUBJECT:** | **GOVERNMENT ACTUARY'S DEPARMENT – SECTION 13 DRY RUN REPORT** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES** |
| **RESPONSIBLE PORTFOLIO HOLDER:** | |
| **KEY DECISION?** | **NO** |

**1.0 EXECUTIVE SUMMARY**

1.1 This report updates Members on the recent publication of the Government Actuary's Department (GAD) Section 13 'dry run' report, based on the 2013 round of fund valuations.

The purpose of the 'dry run' is to inform the approach and analysis for the first statutory report, concomitant with the 2016 round of ninety-one separate fund valuations.

1.2 The dry run report and appendices can be accessed from the Scheme Advisory Board website at:

http://lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

http://lgpsboard.org/images/Reports/Section13DryRunAppendices20160711.pdf

**2.0 BACKGROUND AND KEY ISSUES**

2.1 The Independent Public Service Pension Commission's review of the sustainability of public service pension schemes led to numerous recommendations to change the structure and strengthen the governance framework of the LGPS – these resulted in the enactment of the Public Service Pension Act 2013.

In particular, there was a recommendation to publish centrally collated comprehensive data covering all LGPS funds, raising awareness of the need for consistency and transparency in the management of funding across the LGPS. This data is to include comparisons of key assumptions about investment growth and differences in deficit recovery plans amongst the funds.

.

2.2 As such, Section 13 of the Act requires the Government Actuary to report on the funding reviews and employer contribution rates following each triennial valuation of the LGPS for the purpose of assessing whether the following four main cornerstones are achieved:

- **Compliance -** whether the fund's valuation is in accordance with the scheme's regulations

- **Consistency -** has the fund's valuation been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

- **Solvency -** is the rate of employer contributions set at an appropriate level to ensure the solvency of the pension fund

- **Long term cost efficiency -** is the rate of employer contributions set at an appropriate level to ensure the long term cost-efficiency of the scheme, so far as relating to the pension fund.

2.3 The provisions within Section 13 provide for remedial action in circumstances where funds do not meet the above stated requirements.

**COMPLIANCE**

2.4 GAD reported no evidence of material non-compliance with the Scheme regulations, specifically the requirement to undertake a valuation exercise having due regard to the administering authorities' Funding Strategy Statements and Statements of Investment Principles within statutory timescales.

**CONSISTENCY**

2.5 A number of inconsistencies were identified between the valuations in terms of the approach taken, the assumptions used and disclosures which make meaningful comparison of local valuation results unachievable.

2.6 The analysis unveiled a wide range of financial assumptions without explanation within the reports as to whether the assumptions are solely driven by local circumstances. In addition, there appears to be no common understanding of what constitutes “prudence” as outlined within the CIPFA guidance quoted in Regulation 58 of the LGPS Regulations 2013.

2.7 As the valuation is a tool to set the balance between contributions and reliance on future investment return, it is for each Fund to determine their own pace of funding in conjunction with their own investment and risk appetite.

As such GAD acknowledges that there are significant challenges in achieving full consistency in the short term, although it is expected that there should be a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

2.8 The Scheme Advisory Board has developed a number of key performance indicators in regard a framework for consistent reporting across individual funds. To achieve the stated aims of Section 13, GAD recommend that funds publish the SAB’s standard reporting metrics within the valuation reports to facilitate transparent and robust comparison. A chart showing how the relative ranking of funds by funding ratio has changed as a result of the standardised basis is on page 39 of the ‘dry run’ report.

2.9 Stakeholders should be aware that it is crucial that the standardised basis published within the ‘dry run’ report should not be used for anything other than a comparison tool, as the underlying discount rate bears no relation to any individual fund’s investment or risk profile.

**SOLVENCY**

2.10 The requirement to set contributions to meet scheme liabilities as they arise does not compel a pension fund to be 100% funded at all times. For the purposes of Section 13, the rate of employer contributions was deemed by GAD to be set at a level to ensure solvency if:

- the rate of employer contribution is set to target full funding over an appropriate period, using appropriate actuarial assumptions in comparison with other funds, and

- employers have the financial capacity to increase employer contributions should future events demand.

2.11 There are ten solvency measures utilised by GAD, these are linked to present and emerging risk factors to determine a RAG flag matrix to illustrate a fund's solvency position. The methodology to define the analysis is contained within Appendix E of the 'dry run' report and results displayed within table F1 in Appendix F.

As identified within the report, the findings show that MPF's solvency rating is green for all measures except the 'asset shock' measure which received an amber rating. Asset shock relates to the change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return –seeking assets.

2.12 The Fund actuary (Mercer) has fed back to GAD that the metric to measure asset shock and perceived affordability of increased contributions can significantly distort the outcome, depending on whether councils have shed staff due to budget cuts.

It has therefore been suggested that any variance in employer contribution rates should be assessed against local authority income, instead of payroll, as a fairer reflection of the ability of employers to shoulder the risk of asset shock. GAD has acknowledged that the 'asset shock' measure will require reconsideration prior to the next published report.

2.13 It has been MPF's long term view that the fundamental key to a successful funding regime is the requirement to retain an element of prudence within the actuarial assumptions to cope with adverse events which put pressure on contributions. The level of prudence adopted should be disclosed in the funding plan to ensure transparency and to promote greater understanding of the objectives of the funding plan to the constituent employers.

**LONG TERM COST EFFICIENCY**

2.14 The Act implies that "long term cost efficiency" means that employer contribution rates must not be set at a level that gives rise to additional costs, for example, by deferring costs to the future which would then lead to greater overall costs than if provided for at the present time.

2.15 To assess long term cost efficiency, ten measures were applied with regard to a number of absolute and relative considerations - as outlined in Appendix G with each fund's score documented within table HI in Appendix H, again using the RAG flag scoring matrix.

2.16 MPF was scored as green against all long term cost efficiency measures, indicating that that there are no material issues that may contribute towards a recommendation for remedial action to ensure long-term cost efficiency of contributions.

2.17 The Act permits GAD to change considerations or metrics to increase clarity in the analysis as its reporting methodology evolves.

## 3.0 RELEVANT RISKS

3.1 There is a risk that the league tables and the measures used will affect behaviour to the extent that they may actually lead to decision- making being unduly influenced by the measures applied by GAD, as opposed to the Fund's own circumstances.

## 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 Not relevant for this report.

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

8.1 Officers will assess the Section 13 reporting measurements as part of the 2016 valuation process, but do not believe the funding regime will be unduly influenced as a result of the robust and sensible metrics inherent within the extant funding philosophy.

8.2 However, from a wider governance perspective and to support good risk management, the Fund intends to put the following measures in place for the 2016 valuation;

- a “CPI plus” funding approach which provides a clear link between investment strategy, the funding assumptions and risk objectives;

- covenant measurements and supporting tools to assess individual employer risk and to monitor these risks on an ongoing basis;

- bespoke risk management strategies incorporating clear approaches to manage specific liability, investment and employer risks;

- data quality reporting and error resolution operational processes to help improve Fund data and valuation accuracy.

**9.0 LEGAL IMPLICATIONS**

9.1 There are none arising from this report

**10 EQUALITIES IMPLICATIONS**

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

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the cost management 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 It is recommended that Members should consider the Section 13 measures as an integral part of the valuation, but any decisions on funding should be based on the Fund’s own circumstances, risk profile and long term objectives.

## 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 and best practice guidance as part of their decision making role.

**REPORT AUTHOR** Yvonne Caddock
Principal Pension Officer

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**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
|---|---|
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**WIRRAL COUNCIL**
**PENSIONS BOARD**

**11 OCTOBER 2016**

| | |
|---|---|
| **SUBJECT:** | **CIPFA PENSION BOARD EVENT** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

## 1.0 EXECUTIVE SUMMARY

1.1 This report invites Board members to participate in a Local Pension Board seminar in Liverpool on 26 October 2016 organised by CIPFA in conjunction with Barnett Waddingham.

## 2.0 BACKGROUND AND KEY ISSUES

2.1 The CIPFA Local Pension Board seminars are exclusively for Board members and will provide the latest information updates, training on specific topics and opportunities for discussion and networking with members of other Funds' Boards.

2.2 The seminars are designed as an opportunity for members of Local Boards to share experiences, to receive updates, to enhance their knowledge, and to discuss the key issues facing them and the LGPS in a professional but informal environment. As well as presentations, there will be interactive sessions to facilitate discussion and networking as well as plenty of networking time during the refreshment breaks.

2.3 The Liverpool event is being held at Barnett Waddingham's offices, Port of Liverpool Building, Pier Head between 13.30 and 16.30 on 26 October 2016.

## 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 The cost of each seminar place is £125 plus VAT.

## 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 Board Members note the report and advise their availability for the event.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Pensions Act 2004 requires members of Wirral's Pensions Board to be conversant with key areas of knowledge and understanding of the law relating to pensions.

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## APPENDICES

None

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| **Briefing Note** | **Date** |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| **Council Meeting** | **Date** |
|---|---|
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# WIRRAL COUNCIL

## PENSION BOARD

## 11 OCTOBER 2016

| | |
|---|---|
| **SUBJECT:** | **ANNUAL EMPLOYERS' CONFERENCE** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **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 Tuesday 29 November 2016.

## 2.0 BACKGROUND AND KEY ISSUES

2.1 The 2016 conference will be held at Aintree Racecourse on **Tuesday 29 November**.

2.2 In addition to the annual reports on investment performance and the administration of the Pension Fund over the previous year; a presentation will be given by Mercer, the Fund Actuary summarising the triennial valuation; and there will be a review of the Pension Board's activities. There will also be a presentation on the activities of the Pension Board.

2.3 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.

2.4 Members are invited to attend the Conference and further details will be circulated to 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 £7,500; 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 and advise if they are able to attend.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 The event provides a forum for officers, advisors and the 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.

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## APPENDICES

None

## BACKGROUND PAPERS/REFERENCE MATERIAL

None

## BRIEFING NOTES HISTORY

| Briefing Note | Date |
|---|---|
| | |

## SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|---|---|
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**WIRRAL COUNCIL**
**PENSION BOARD**

**11 OCTOBER 2016**

| | |
|---|---|
| **SUBJECT:** | **POOLING CONSULTATION UPDATE** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

## 1.0 EXECUTIVE SUMMARY

1.1 This report provides the Board with details of the final submission made to Government in respect of pooling arrangements relating to the Northern Pool.

1.2 The appendix to the report, appendix 2, 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 At the Pensions Committee on 4 July, Members gave approval for officers, in consultation with the Chair, to finalise the submission to Government in relation to the Government's consultation on pooling within the LGPS.

2.2 Appendices 1 and 2 provide the full details of the Northern Pool's submission to Government on 15 July 2016.

2.3 Following receipt of the submission, the Department for Communities and Local Government (DCLG) held a conference call with officers of the Northern Pool on 31 August 2016. In addition to providing clarification to DCLG, we were advised that all Pool submissions to the pooling consultation are to be considered at a Government panel which will be convened during the week commencing 5 September after which DCLG will respond formally to the Northern Pool in writing.

## 3.0 RELEVANT RISKS

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

## 4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

## 5.0 CONSULTATION

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

## 6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

## 7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report. The submission sets out the anticipated financial costs of establishing pooling arrangements and the projected savings over the long-term.

## 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 the Board note the final submission to Government which was prepared in consultation with the Chair.

## 14.0 REASON/S FOR RECOMMENDATION/S

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

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**APPENDICES**

Appendix 1. LGPS Pooling
Appendix 2. Exempt - LGPS Pooling

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
|---|---|
| | |

**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
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NORTHERN POOL

15 July 2016

Dear Sirs,

**NORTHERN POOL - Pooling of Local Government Pension Scheme investments**

We are delighted to enclose the Northern Pool's submission to Government on the progress that Greater Manchester Pension Fund, West Yorkshire Pension Fund and Merseyside Pension Fund, have made in forming a Collective Asset Pool of £35 billion, which represents approximately 20% of the LGPS' investment power, and meets the criteria issued by Government on 25 November 2015.

We set out in the submission how through effective but simple democratic governance we will achieve:

- ✓ £1 billion plus infrastructure pot in coming weeks, which we believe can be scaled up for others to join and obtain the benefits, which have resulted from the Pool being created from some of the most successful funds in the LGPS;
- ✓ 10% commitment to infrastructure investment;
- ✓ cost savings to emerge from Summer 2016 onwards, with estimated annual savings of £28 million - representing an ongoing saving of 25%;
- ✓ clear recognition as the lowest cost pool in the LGPS on a like-for-like basis; and
- ✓ simple democratic governance arrangements, which deliver Government's aims of accountability for the tax payer.

**Most cost effective structure**

In order to meet the Government Criteria, against which, we are advised that all funds will be required to meet, the collective pool assets will be managed by an operating company, which will seek authorisation from the Financial Conduct Authority to operate as an Alternative Investment Fund Manager (known as an 'AIFM'). The three participating funds will own equal share capital in the Investment Management Company. Considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool's listed assets and specialist external legal and financial advice has been sought.

Whilst we acknowledge it is appropriate that the majority of other LGPS pools will be establishing an Authorised Contractual Scheme (known as an 'ACS'), we do not believe this would be expedient for the Northern Pool. The scale of the existing mandates (GMPF has a circa £6bn external balanced mandate and WYPF internally manages circa £9bn of listed assets), with limited overlap between mandates and low-cost, low turnover approach of the Northern Pool, mean that holding listed assets in an ACS would not be the most cost effective or efficient approach for the Northern Pool. Our approach reduces set up costs between £4.2m and £8.4m and reduces the ongoing costs by £1.35 million per annum compared to using the ACS vehicle.

Therefore, in line with our fiduciary duty to both LGPS members and taxpayers we are proposing to retain segregated mandates for listed assets to achieve the overriding interests set out in the Governments Criteria. The oversight body of democratically elected members with the support of external advisors representing the 20 Metropolitan Councils and Ministry of Justice together with the 1,000 plus employers will hold the AIFM to account to ensure that the Northern Pool maintains

gmpf

Merseyside PENSION FUND

West Yorkshire Pension Fund

the good investment returns and low costs that have resulted in low contribution rates for the benefit of taxpayers generally.

**Cost savings**

The savings arise predominantly from the increased resource of the Pool enabling many alternative asset classes to be accessed in a more cost effective way.  Over the implementation period, our ambition is to:

- ✓ Move from private equity fund of funds to single funds/co-investments
- ✓ Move from hedge fund of funds to single strategy funds.
- ✓ Reduce the proportion of indirect property relative to direct property
- ✓ Reduce the proportion of indirect infrastructure relative to direct infrastructure

Additional cost savings will be achieved from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time, as appropriate internal capacity is developed.

In many respects, the funds in the Pool start from an advantageous position of already having many of the economies of scale that other pools are seeking.  As a result, the potential cost savings are likely to be lower than in other pools. That said, we believe that a 25% reduction is significantly ambitious and represents real value to taxpayers.

**Infrastructure**

We are keen to create a significant investment pool, which will enable us to compete with global wealth funds to invest in major regional and national infrastructure projects such as airport expansion, major new road and rail schemes, housing developments and energy production growth.

We have a long-history of making significant direct local infrastructure investments such as the Matrix Homes initiative as referenced in the Government's Criteria, which unlocked difficult brownfield sites to build hundreds of much needed houses.

Recognising this, we seek to build on the existing strengths of the participating funds, further developing internal capacity, skills and resilience and sharing this across other LGPS pools on a collaborative basis.  This is where we strongly believe that greatest value can be added by the large LGPS funds such as ourselves.  The pooled fund will add to and strengthen the investment already taking place.

With such a large investment pool comprised of partners from across the North, the fund will deliver both the commercial returns required and social value to the regions that each of the funds represent.  Pooling arrangements would help increase this capacity for infrastructure investment and further increase the proportion of investment in this asset class achieving a minimum 10% investment within 3-5 years with the ambition to increase this investment further to 15% in the long term.

In particular, we are currently in the process of creating a £1 billion infrastructure funding pool by expanding the existing Greater Manchester / LPFA infrastructure (GLIL) vehicle.  This will enable investment in larger infrastructure investments on a direct basis and achieve our ambitions for growth.  Access to investments of this scale is often out of the reach of individual pension funds, and certainly some of the smaller funds.  We believe this infrastructure vehicle  provides an opportunity to create a national fund with a focus on long term economic growth and social benefit, which could provide a national solution to all the newly created LGPS Pools should they wish to access.

We will look forward to further discussion with Government and our stakeholders over the forthcoming months.

Yours sincerely,

**Cllr Kieran Quinn**
**Greater Manchester Pension Fund**

**Cllr Andrew Thornton**
**West Yorkshire Pension Fund**

**Cllr Paul Doughty**
**Merseyside Pension Fund**

# Proposal for asset pooling in the LGPS – 15 July 2016

| | |
|---|---|
| Name of pool | Northern Pool ('the Pool') |
| Participating authorities | **City of Bradford MDC** – administering authority for West Yorkshire Pension Fund ('WYPF');<br>**Tameside MBC** – administering authority for Greater Manchester Pension Fund ('GMPF')<br>**Wirral MBC** – administering authority for Merseyside Pension Fund ('MPF') |

**Criterion A: Asset pools that achieve the benefits of scale**

| **1. The size of the pool once fully operational.** | |
|---|---|
| (a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015). | £35.416bn<br><br>All assets other than day-to-day cash will be invested via the pool once transition is complete.<br>Day-to-day cash assumed to be 1% of total assets. |

| **2. Assets which are proposed to be held outside the pool and the rationale for doing so.** |
|---|
| (a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015). |
| Total Value £0.357bn<br>Asset types:<br>1. Cash used for day to day scheme administration purposes (contributions received, payment of pensions, retirement lump sums, invoices etc…) |

| | |
|---|---|
| (b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money. | Attached as:<br>ANNEX A1a) WYPF<br>ANNEX A1b) GMPF<br>ANNEX A1c) MPF |

**3. The type of pool including the legal structure.**

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

All Pool assets will be managed by an operating company (the 'Investment Management Company') which will seek authorisation from the Financial Conduct Authority ('FCA') to operate as an Alternative Investment Fund Manager ('AIFM'). Authorisation as and AIFM will allow the Pool to operate collective investment vehicles in alternative asset classes. The Pool may also seek MiFID-type permissions from the FCA as appropriate. The 3 participating authorities will own equal share capital in the Investment Management Company.

- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

For the immediate future after inception of the Pool, listed assets will continue to be held in segregated mandates owned directly by the participating authorities, but managed by the Investment Management Company. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

In preparing this submission considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool's listed assets in order to best achieve all four criteria set by Government. Our understanding is that many other LGPS pools will be establishing an Authorised Contractual Scheme ('ACS'). However, due to the scale of the existing mandates (GMPF has a c£6bn external balanced mandate and WYPF internally manages c£9bn of listed assets), limited overlap between mandates and low-cost, low turnover approach of the Pool, holding listed assets in an ACS is not currently the most cost effective approach for the Pool.

The report from PwC (attached as ANNEX A2 to this submission) provides an analysis of the cost differentials between:

a) establishing and operating an Authorised Contractual Scheme ('ACS') and;

b) the Pool's preferred segregated mandate approach.

The set up costs of option b) are between £4.2m and £8.4m lower than option a), with ongoing costs of option b) £1.35m p.a. lower.

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

All non-listed assets will be managed by the Pool from 1 April 2018. New investments (i.e. those entered into after 1 April 2018) in non-listed assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy (i.e. those entered into prior to the formation of the Pool) non-listed assets will be run-off on a segregated basis.

- The composition of the supervisory body.

An Oversight Board will be established to:

i) provide oversight of the Investment Management Company and its directors; and

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

The Oversight Board's primary roles are to ensure that the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the participating authorities' pension committees.

| |
|---|
| The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Investment Management Company. The Oversight Board will not be undertaking any regulated activities.<br><br>Each participating authority will nominate 3 representatives (which may include representatives of trade unions) to sit on the Oversight Board, in order to create a Board of 9 members. The Oversight Board needs at least one representative of each participating authority to be present in order to be quorate. The Board elects a chair and a vice chair on an annual basis.<br><br>No independent members are included as voting members, but external advisors will be appointed and leading pensions officers at each participating authority will attend Board meetings. |

| | |
|---|---|
| Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date. | All authorities participating in the Pool have signed up to this submission to Government. Once feedback on this submission is received the participating authorities will be formally asked to sign-off the resulting changes to governance arrangements. |

| |
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| **4. How the pool will operate, the work to be carried out internally and services to be hired from outside.** |
| Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision. |
| (a) To operate in-house (for example if the pool will have internal investment management from inception):<br>1. Implement the strategic asset allocations of the participating authorities (with effect from April 2018)<br>• The Investment Management Company and its investment committee(s) will select |

investment managers (either internal or external) to manage assets on behalf of the Pool and the participating authorities and approve the investment management agreements and investment guidelines for the chosen mandates.

2. Management of UK and Overseas equities and bonds (with effect from 1 April 2018).
    - Participating authorities in the Pool currently internally manage around £10bn of listed assets. The expectation is that the proportion of listed assets which are internally managed by the Pool will increase over time.
3. Selection of private equity, infrastructure & property funds (with effect from 1 April 2018)
    - All 3 participating authorities currently internally select a substantial proportion of their new fund commitments in these asset classes. The expectation is that following the inception of the Pool a greater proportion of the investment in these asset classes will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach.
4. Direct UK infrastructure investment via 'GLIL' vehicle - (Merseyside Pension Fund and West Yorkshire Pension Fund to join Greater Manchester Pension Fund in GLIL vehicle from autumn 2016)
    - See response to criterion D for further details.
5. Legal and accounting support (with effect from 1 April 2018)
    - The existing legal and accounting support at the participating authorities will be amalgamated in order to increase the scope of services provided internally and increase resilience. Legal work which is expected to be carried out internally includes the review of investment management agreements, partnership agreements and the conveyancing on purchase and sale of direct property investments. Investment accounting will also be carried out internally.

(b) To procure externally (for example audit services):

1. External fund management for certain mandates (with effect from 1 April 2018)
    - Two of the participating authorities in the Pool currently use external fund managers for listed assets. Following its inception the Pool will continually review whether internal or external management is most appropriate for each investment mandate. It is likely that direct property investments will continue to be managed externally on an advisory basis.
2. Common custodian for Pool (plus depositaries & fund administrators for the pooled funds

that are established for non-listed assets) (with effect from 1 April 2018)

- A procurement exercise will be undertaken to appoint a common custodian for the Pool with effect from April 2018. In addition, depositaries and fund administrators will be appointed for pooled funds that are established for non-listed assets (property and/or private equity)

3. Investment management systems (with effect from 1 April 2018)
    - Prior to the Pool's inception a detailed review will be undertaken of systems requirements and appropriate investments management systems will be externally procured.
4. Audit (with effect from 1 April 2018)
    - The Pool will appoint an external auditor with extensive experience of auditing FCA regulated investment management firms. Consideration will also be given to outsourcing the Pool's internal audit function.
5. Performance analytics (with effect from 1 April 2018)
    - The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost).
6. Responsible Investment services (with effect from 1 April 2018)
    - In addition to internal resources, the Pool will use the services of an experienced external provider to provide information and advice on Responsible Investment matters.
7. Value for money review of structure (shortly after 1 April 2018)
    - Following the Pool's inception an independent external review of the Pool's structure will be commissioned to provide assurance to the Participating Authorities that the Pool is providing optimum value for money.

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.

The service allocation as listed is based on the best advice and information received to date, but may be subject to alteration

- During the implementation phase should it become apparent that an alternative solution will provide better value for money.
- After implementation where alternative solutions could deliver better value for money (see 6 above).

| **5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.** | |
|---|---|
| (a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). | |
| Confirmed: YES<br>If NO please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018. | Anticipated date structure will be in place: 1 April 2018 (subject to receiving swift feedback from Government on this submission) |
| (b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable. | Attached as ANNEX A3 |
| (c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.) | Attached as ANNEX A4 |
| (d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018. | |
| Total value of assets estimated to be held in pool as at<br>31.3.2021: £35.416bn<br>31.3.2024: £35.416bn<br>31.3.2027: £35.416bn<br>31.3.2030: £35.416bn<br>31.3.2033: £35.416bn | |

**Criterion B: Strong governance and decision making**

| **1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.** |
|---|
| (a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights. |
| Each of the participating authorities will nominate 3 representatives to the Oversight Board to express the views of their pensions committees. The Oversight Board's primary roles are to ensure that the directors of the Investment Management Company are effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the authorities' pension committees. All members of the Oversight Board have equal voting rights. |
| (b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board). |
| • **Pensions Committees of the participating authorities** – The pensions committees will regularly receive performance information from the Pool, which they will consider in conjunction with professional external advice. The pensions committees nominate representatives to the Oversight Board and can change their representatives if they believe that they are not adequately performing their role.<br>• **Local Pension Boards** – The Local Boards of the Participating Authorities have a duty to ensure their respective authorities comply with all relevant legislation, the requirements of the Pensions Regulator and to ensure the effective and efficient governance and administration of the Scheme. The pensions boards are comprised of representatives of employers and representatives of members of the funds.<br>• **Valuation and performance analytics** – The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost).<br>• **Advisors to Oversight Board** – the Oversight Board will seek external advice as appropriate to ensure it is effectively carrying out its roles as described in part (a) above.<br>• **External audit** – the Investment Management Company will appoint an external auditor with strong credentials in the investment management sector. The scope of the audit will |

follow industry best practice.

- **Internal audit** – the Pool will consider the most effective way of providing a strong internal audit function. Options include appointing an external provider to carry out this service or using the services of one of the Participating Authorities.
- **Financial Conduct Authority ('FCA')** – The Pool will meet all requirements in order to acquire and maintain FCA approval.

| **2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.** | |
|---|---|
| (a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body. | |
| Prior to the February submission to Government, the 3 participating authorities signed a memorandum of understanding which set out the proposed operation of the Pool. This memorandum of understanding will be revised and strengthened to reflect the finalised Pool structure. The MoU will set out how representatives of the participating authorities are appointed to the Pool Oversight Board and define the key strategic objectives and operational governance of the Pool. In addition to the MoU, Terms of Reference will be prepared for both the Oversight Board and the Investment Management Company, which will clearly set out the remit of each entity. | |
| (b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX. | Not yet available |
| (c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy. | |
| The Memorandum of Understanding grants the Oversight Body certain powers regarding the operation of the Investment Management Company, which can be used to ensure the effective performance of the Investment Management Company.<br>Reporting processes will include regular written reports on the performance of Pool | |

investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool Investment Management Company will also report to and present directly to participating authorities' pension committees and local pension boards as appropriate.
Participating Authorities' pension committees and local boards will also have access to the external benchmarking reports.

**3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.**

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The pension committees of the Participating Authorities will retain responsibility for:

- Meeting their funds' liabilities.
- Setting the strategic asset allocation of their fund.
- Preparing the funding strategy statement and other appropriate strategy documents.

This will enable the Participating Authorities to demonstrate that they are exercising their democratic, statutory and fiduciary duty.

Subject to continuing to meet best practice and mandates being of sufficient size to ensure low cost, Participating Authorities will also retain the ability to select asset class (equity, bonds, property etc…including multi-asset), territory (UK, Europe, US etc.. or global) style (value, growth etc…) and whether managed actively or passively. The participating authorities view these choices as asset allocation decisions.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

The Investment Management Company's role is to independently and professionally deliver the participating authorities' strategic asset allocation. This will involve making the following decisions:

- Whether to manage a mandate internally or whether to appoint an external manager for that mandate.

- For externally managed mandates, whether the mandate is on an advisory or discretionary basis.
- Whether to remove an existing manager and/or appoint a new manager.
- For internally managed mandates, whether to buy or sell an individual asset.
- The legal form of any investment vehicles used (e.g. limited partnership, unit trust etc…).
- The appointment of external support such as custodians, depositaries, specialist advice as required.

This scope of decision making is designed to retain democratic accountability and fiduciary duty at the participating authorities whilst ensuring all investment decisions are undertaken by those individuals with appropriate knowledge and experience in compliance with FCA regulations and the continued efficient operation of the Pool.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

The Oversight Board will oversee all aspects of the operation of the Investment Management Company, but will not perform any FCA regulated functions. Its primary role is to ensure the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and is complying with their Investment Strategy Statements.

The Oversight Board will also undertake the following activities:

- Monitoring and benchmarking of performance and reporting back to the Participating Authorities' pension committees;
- Overseeing Responsible Investment activities
- Engagement with the pension committees of participating authorities to help drive efficiencies (for example providing details of what mandates already exist in the Pool and the potential for new mandates);
- Nominating representatives to national structures as appropriate (for example any national infrastructure board);
- Monitoring staffing requirements of the Investment Management Company and budgets.

| 4. **The shared objectives for the pool and any policies that are to be agreed between participants.** | |
|---|---|
| (a) Please set out below the shared objectives for the pool. | |
| The long-term vision of the Pool is to provide participating authorities with access to a range of internal and external investment management and related services at low cost, to enable their LGPS funds to continue outperforming their individual benchmarks.<br>Liabilities influence the asset structure; funds exist to meet their liabilities. Asset allocation is the dominant determinant of portfolio risk and return. Markets can be inefficient. Risk premia exist for equity, credit, duration, illiquidity, inflation and volatility. The key principles of the Pool investment approach are a long-term perspective and to maintain simple arrangements with a relatively low number of managers and low manager and portfolio turnover. | |
| (b) Please list and briefly describe any policies that will or have been agreed between the participating authorities. | |
| Prior to the February submission to Government the participating authorities signed a Memorandum of Understanding setting out the proposed operation of the Pool. This Memorandum of Understanding will be updated and strengthened where appropriate to reflect the final structure of the Pool. | |
| (c) If available please attach as an ANNEX any draft or agreed policies already in place. | MoU Attached as ANNEX B1 |

| 5. **The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.** | |
|---|---|
| (a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <ins>Please include details of where new costs are offset by reduced existing costs.</ins> | Implementation costs £1.8m<br>Ongoing costs £4.7m p.a.<br>(with a commensurate reduction in investment staffing costs at the Funds of c£4.0m) |
| <ins>Assumptions</ins> | |

| | | |
|---|---|---|
| | i) Implementation costs<br>Estimated costs are in respect of:<br>• Advice on FCA authorisation process.<br>• Legal advice on proposed fund structures.<br>• Procurement and implementation of systems, common custodian and depositaries.<br>ii) Ongoing costs<br>Existing investment staffing costs are approximately £4m p.a. across the 3 participating funds. An increase of £0.5m is assumed following pooling. The additional staffing costs are in respect of:<br>• Risk and compliance roles required to meet FCA authorisation requirements.<br>• Additional legal responsibilities of key staff.<br>• Specialist systems support.<br>• Non-executive directors on Investment Management Company Board.<br>Additional ongoing costs arise in respect of:<br>• Additional training and monitoring of staff to meet FCA compliance requirements<br>• The cost of servicing FCA regulatory capital<br>It is assumed that the costs of specialist investment management systems and the administration of collective investment vehicles created by the Pool will be offset by the efficiencies of moving from 3 custodians to a common Pool custodian.<br><br>Further details of assumed implementation and ongoing costs can be found on pages 10 and 11 of Annex A2. | |
| | <u>Comments</u><br>Implementation costs of the Northern Pool are assumed to be lower than typical due to significant internal resource available. | |
| (b) | Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate. | The participating funds currently employ around 60 investment and support staff. During the implementation of the Pool this is expected to increase to around 65, |

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| | reflecting the additional resource outlined in part a)ii) above. As additional listed assets are brought in house, there will be an increase in investment staff. However, the cost savings achieved will significantly outweigh the additional staff costs. |

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| Assumptions: It is assumed that the additional resource which will be created by amalgamating the participating authorities' investment teams will enable the scope of activities undertaken by the Pool to be broader than those currently undertaken by the participating authorities. For example, it is expected that the proportion of listed assets that are internally managed will increase over time and a greater proportion of the investment in private equity will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach. Please see the response to Criterion C, 3(b) for further details. |
| Comments |

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|---|---|
| **6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.** | |
| (a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018. | |
| Confirmed: **YES**<br>If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts. | N/A |

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| **7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.** |

| (a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index. | |
|---|---|
| Confirmed: **YES**<br>If no please attach an ANNEX setting out how the pool will report publically on its performance. | N/A |

| **8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.** |
|---|
| (a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool. |
| The participating authorities (via the Pool Oversight Board) will agree a common reporting framework for the Pool. Indicators which are expected to be analysed include:<br>• Net returns and net value added.<br>• Returns and value added by asset class<br>• Risk adjusted returns<br>• Risk analysis<br>• Cost analysis including comparison of asset management costs by asset class<br>• Comparison of oversight, custodial and other investment costs |

**Criteria C: Reduced costs and excellent value for money**

| **1. A fully transparent assessment of investment costs and fees as at 31 March 2013.** | |
|---|---|
| (a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2013 | £25.2m |
| (b) Please state the total investment costs and fees for all the funds in the pool as at 31st March 2013 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point. | £92.5m |
| (c) Please list below the assumptions made for the purposes of achieving the transparent costs quoted | |
| CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs. | |

| **2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2015 for comparison** | |
|---|---|
| (a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2015 | £28.2m |
| (b) Please state the total investment costs and fees for all the funds in the pool as at 31st March 2015 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point. | £115.1m |

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|---|
| (c) Please list below any assumptions made for the purposes of achieving the transparent costs quoted that differ from those listed in 1(c) above |
| CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs. |

| **3. A detailed estimate of savings over the next 15 years.** |
|---|
| (a) Please provide a summary of the estimated savings (per annum) to be achieved by the pool at the end of each 3 year period starting from 1st April 2018. Please note these estimates should be net of implementation and running costs of the pool as stated in B 5(a) and (b) but excluding the transition costs shown in 4 below. For consistency please base these estimates on an assumption that the current asset mix will not change over the period. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point. |
| Total value of savings (per annum) estimated to be achieved by the pool as at<br>31.3.2021: £ 5.1m<br>31.3.2024: £ 12.2m<br>31.3.2027: £ 17.2m<br>31.3.2030: £ 22.5m<br>31.3.2033: £ 28.3m |
| (b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it) |
| The cost savings shown assume the Pool structure set out in Criteria A 3(a) is implemented.<br><br>The savings arise predominantly from the increased resource of the Pool enabling some alternative asset classes to be accessed in a more cost effective way. Over the implementation period it is assumed that the Pool will:<br>• Move from private equity fund of funds to single funds/co-investments<br>• Move from hedge fund of funds to single strategy funds. |

- Reduce the proportion of indirect property relative to direct property
- Reduce the proportion of indirect infrastructure relative to direct infrastructure

The costs of direct property, direct infrastructure and private equity co-investment once the Pool is fully operational have been estimated at 20bps, 85bps and 50bps respectively. This is based on the participating authorities experience to date of investing in these asset classes.

For other asset classes, the savings are calculated by assuming the Pool achieves asset management costs which are 10% below the CEM global median costs for the relevant asset class mandate. This reduction reflects the scale of the Pool.

The phasing of the costs savings over the period up to 2033 reflects the anticipated expiry dates of existing illiquid investments and realistic expectations of when the Pool will have the necessary capacity and capability where required.

The cost savings figures shown are net of the additional running costs of the Pool which are estimated at £0.7m p.a. as set out in the response to Criteria B 5(a). Implementation costs are assumed to incur prior to the inception of the Pool and therefore have not been reflected in the cost savings figures shown.

Additional cost savings are anticipated (but not included in the figures above) from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time as appropriate internal capacity is developed.

| | |
|---|---|
| (c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown | N/A |

| **4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.** | |
|---|---|
| (a) Please provide a summary of the estimated total transition costs at the end of each 3 year period starting from 1st April 2018. For consistency please base these estimates on an assumption that the current asset mix will not change over the period. | |
| Total value of transition costs estimated to be incurred by the pool by<br>31.3.2021: £ Nil<br>31.3.2024: £ Nil<br>31.3.2027: £ Nil<br>31.3.2030: £ Nil<br>31.3.2033: £ Nil | |
| (b) Please list below the assumptions made in estimating the transition costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it) | |
| In view of the approach to pooling listed assets, the Northern Pool is assuming that it will not incur any transition costs. Any transition costs that are incurred will arise from asset allocation and investment management decisions independent of the pooling process – not simply from aggregating assets.<br><br>The estimated costs of establishing the Pool are shown in Criteria B Part 5.<br><br>As part of the process of preparing this submission, estimated transition costs have been obtained from Northern Trust for sample equity and bond mandate changes. These costs have been taken into consideration when formulating the proposals in this document. | |
| (c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the transition costs shown | N/A |
| (d) Please confirm that transition costs will be met by the participating funds | |

| | |
|---|---|
| Confirmed YES/NO **YES**<br>If no please attach an ANNEX setting out how the transition costs will be met | N/A |

| **5. A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance** | |
|---|---|
| (b) Please confirm that the pool will publish its annually transition costs and net fees on its own website or a on the websites of all participating funds | |
| Confirmed YES/NO **YES**<br>If no please attach an ANNEX setting out how the pool will report transparently on transition costs and net fees | N/A |

**Criterion D: An improved capacity to invest in infrastructure**

| **1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"** | |
|---|---|
| (a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015. | See table below |
| (b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015. | See table below |

| | | GMPF | MPF | WYPF | Pool |
|---|---|---|---|---|---|
| **Direct** | Allocated | 1.5% £250m | 0.5% £30m | | 0.8% £280m |
| | Committed | 0.6% £105m | 0.5% £30m | | 0.4% £135m |
| | At Work | 0.5% £90m | 0.2% £15m | | 0.3% £105m |
| **Funds** | Allocated | 4.0% £680m | 4.5% £320m | 3.0% £325m | 3.8% £1,325m |
| | Committed | 2.8% £469m | 4.2% £272m | 3.3% £366m | 3.0% £1,107m |
| | At Work | 1.3% £224m | 3.4% £220m | 2.4% £271m | 2.0% £716m |
| **Total** | Allocated | 5.5% £930m | 5.0% £345m | 3.0% £325m | 4.5% £1,600m |
| | Committed | 3.4% £574m | 4.7% £302m | 3.3% £366m | 3.5% £1,242m |
| | At Work | 1.9% £314m | 3.6% £235m | 2.4% £271m | 2.3% £820m |

The figures in the table above reflect the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

**2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.**

| | |
|---|---|
| (a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively. | Confirmed |
| (b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative. | **Yes**<br>The Northern Pool is committed to working with the cross pool collaboration on infrastructure and as such has agreed to operate in accordance with the document attached as Annex D1.<br>The Pool has a strong belief that the infrastructure partnership developed between GMPF and LPFA ('GLIL'), which WYPF and MPF will shortly be joining can form part of the solution for national LGPS collaboration on infrastructure investment. Indeed, use of this vehicle could accelerate the achievement of the objectives set out in this submission and Annex D1. |
| (c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing | Attached as Annex D2 is a document setting out how GLIL can form part of the national solution for infrastructure investment |

| | |
|---|---|
| shared resources of other Pools and include a timescale for implementation of the initiative. | |

| **3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.** | |
|---|---|
| (a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature. | 10% of Pool Assets |
| (b) Please describe the conditions in which this allocation could be realised.<br><br>The two key conditions are<br>i Investments are available that meet the required risk adjusted returns net of fees. The Northern Pool envisages that this requires a programme of both externally managed pooled vehicles and direct investments.<br>ii The Pool has access to entities that have the capacity and capability to access this investment strategy. (For example GLIL for direct UK infrastructure.) | |

**Annex A1(c)**

**Wirral MBC – Administering authority for Merseyside Pension Fund ('MPF')**

*Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.*

MPF expects to hold some cash outside of the Pool on an ongoing basis. This is estimated to be 1% of total fund assets (£68m at 31.3.15 values). This cash will be used for the payment of benefits and administration expenses which can vary in their amount and timing.

Prior to the implementation of the pooling arrangements in April 2018 the Pool will undertake a review of cash management in order to establish the optimum level of cash for each fund to hold outside of the Pool.

Cash balances managed outside of the Pool are expected to achieve a similar rate of return to the cash managed by the Pool.

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# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

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|---|---|
| **SUBJECT:** | **NON-RECOVERY OF PENSION OVERPAYMENTS** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The report approved by Pension Committee on 22 September is attached as an exempt appendix to this report.

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 Set out in the report attached.

### 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 Board Members note the report.

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in assisting the administering authority.

**REPORT AUTHOR:** **PETER WALLACH**
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**APPENDICES**

Appendix 1 Pension non-recovery
Appendix 2 Pension non-recovery Exempt appendix 2

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
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**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
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# WIRRAL COUNCIL

## PENSION COMMITTEE

**19 SEPTEMBER 2016**

| | |
|---|---|
| **SUBJECT:** | **NON-RECOVERY OF PENSION OVERPAYMENTS** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES** |
| **RESPONSIBLE PORTFOLIO HOLDER:** | |
| **KEY DECISION?** | **NO** |

**1.0 EXECUTIVE SUMMARY**

1.1 This report requests approval to write off a sum of £7,255.60 outstanding in respect of overpayments of pensions that have arisen and which are now considered irrecoverable.

1.2 An exempt report on the agenda, the non-recovery of pension overpayments 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 Overpayment of pension benefits can arise in a number of circumstances where information that should result in the termination of a payment is not received, or only received some time after an event.

2.2 Attempts are made to recover overpayments in accordance with an established debt recovery procedure. Each case is considered on an individual basis with regard to the particular nature and sensitivity. This involves sundry debtor accounts being raised against the notified beneficiary and pursued under the debt recovery process

2.3 The delegated authority of the Section 151 Officer to write off debts is limited to £1000 in any one case. As the individual amounts in these cases is above that figure committee approval is requested.

2.4 Details of the individual cases are provided in the attached schedule.

**3.0 RELEVANT RISKS**

3.1 If recovery action is pursued, further legal costs will be incurred and even with best endeavours, the recovery of the sums is likely to prove unsuccessful

**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 no other financial implications arising from this report apart from the total of £7,255.60 under consideration for write off.

**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/S

13.1 That the sum of £ 7,255.60 is approved for write off

## 14.0 REASON/S FOR RECOMMENDATION/S

14.1 Further attempts to recover the overpayments are deemed by Legal as not cost effective, unreasonable or with no realistic prospect of recovery

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**APPENDICES**

Exempt Appendix 1

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
|---|---|
| Non Recovery Of Overpayment Of Pensions | 19 September 2011<br>24 March 2015 |

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# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

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|---|---|
| **SUBJECT:** | **INVESTMENT MONITORING WORKING PARTY (IMWP) MINUTES** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

### 1.0 EXECUTIVE SUMMARY

1.1 The IMWP minutes approved by Pension Committee since the last Pension Board meeting are attached as exempt appendices to this report.

1.2 The appendix to the report, the minutes of IMWP on 9 June 2016, 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 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 Board Members note the 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.

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**APPENDICES**

Exempt appendix 1

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| Briefing Note | Date |
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**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
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# WIRRAL COUNCIL

## PENSIONS BOARD

## 11 OCTOBER 2016

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|---|---|
| **SUBJECT:** | **GOVERNANCE & RISK WORKING PARTY (GRWP) MINUTES** |
| **WARD/S AFFECTED:** | **NONE** |
| **REPORT OF:** | **DIRECTOR OF PENSIONS** |
| **KEY DECISION?** | **NO** |

**1.0 EXECUTIVE SUMMARY**

1.1 The GRWP minutes approved by Pension Committee since the last Pension Board meeting are attached as an exempt appendix to this report.

1.2 The appendix to the report, the minutes of GRWP on 30 June 2016, 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 at least twice 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 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 Board Members note the report.

**14.0 REASON/S FOR RECOMMENDATION/S**

14.1 The approval of 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 at its meeting on 27th June 2011.

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**APPENDICES**

Exempt appendix 1

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

| **Briefing Note** | **Date** |
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**SUBJECT HISTORY (last 3 years)**

| Council Meeting | Date |
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