



## Local Pensions Board

<b>Date:</b>	<b>Tuesday, 10 October 2017</b>
<b>Time:</b>	<b>1.00 pm</b>
<b>Venue:</b>	<b>Merseytravel, Mann Island</b>

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## 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 - 10)

To approve the accuracy of the minutes of the meeting held on 27 June, 2017.

### 3. AUDIT FINDINGS REPORT, ANNUAL REPORT & ACCOUNTS (Pages 11 - 110)

### 4. LGPS UPDATE (Pages 111 - 132)

### 5. TREASURY MANAGEMENT ANNUAL REPORT (Pages 133 - 138)

### 6. GDPR BRIEFING (Pages 139 - 148)

### 7. MIFID II OPT UP (Pages 149 - 174)

### 8. ISS GUIDANCE UPDATE (Pages 175 - 178)

### 9. ANNUAL EMPLOYERS CONFERENCE (Pages 179 - 184)

### 10. RECORDS MANAGEMENT POLICY (Pages 185 - 202)

- 11. POOLING UPDATE (Pages 203 - 206)**
- 12. WORKING PARTY MINUTES IMWP MINUTES 16/06/17, GRWP MINUTES 06/07/17 (RISK REG) (Pages 207 - 210)**
- 13. 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.

- 14. POOLING UPDATE EXEMPT REPORTS (Pages 211 - 236)**
- 15. ADMINISTRATION KPI EXEMPT REPORT (Pages 237 - 256)**
- 16. WORKING PARTY MINUTES IMWP MINUTES 16/06/17, GRWP MINUTES 06/07/17 (RISK REG) EXEMPT REPORTS (Pages 257 - 272)**
- 17. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

## LOCAL PENSIONS BOARD

Tuesday, 27 June 2017

Present: Councillor J Raisin (Chair)

Councillors M Hornby P Maloney  
K Beirne R Irvine  
D Ridland

Apologies G Broadhead P Wiggins

### 1 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.

### 2 MINUTES

**Resolved – That the accuracy of the Minutes of the Local Pension Board held on 16 March, 2017 be approved as a correct record.**

### 3 LGPS UPDATE

Members were provided with the LGPS updates that had been taken to Pensions Committee since the previous Board meeting and were attached as appendices to the report.

Yvonne Caddock, Principal Pension Officer, informed the Board of the Fund's response to the separate consultations on Pension Scams and the Indexation/Equalisation of Guaranteed Minimum Pensions (GMPs) in Public Service pension schemes. The Fund responses to the government consultations discussed at the last Pension Committee were attached as appendices to the report. The Principal Pension Officer also noted that the Chair of the Pensions Board had been consulted and his comments included in the responses. The report further provided an update on the draft LGPS (Amendment) Regulations and the Enterprise Act 2016 Commencement Order. The statutory order SI2017/70 had been issued by HM Treasury with an effective date of 1 February 2017 and was available from the following link

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

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

#### **4 REVIEW OF ACTUARIAL VALUATION**

A report of the Director of Pensions provided members with a summary of the Actuarial Valuation process which had culminated in the Funding Strategy Statement that had been approved at Pensions Committee on 21 March 2017.

Peter Wallach, Director of Pensions, informed Members that the purpose of the actuarial valuation was for the Administering Authority to determine:

- The expected cost of providing the benefits built up by members at the valuation date ('the liabilities') and to compare this against the funds held by the Fund ('the assets').
- The contributions needed to cover the cost of the benefits that active members would build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').
- An appropriate plan for making up the shortfall if the Fund had less assets than liabilities. This plan would cover the amounts which would need to be paid (the Secondary Contribution Rate') and the timeframe over which they would be paid ('the Recovery Period').

Fundamental to the valuation results was the funding strategy adopted by the fund. This was set out in the Funding Strategy Statement (FSS). The FSS provided an overview of the approach to be used for the actuarial valuation including economic and demographic assumptions and how any shortfall was expected to be financed. There was an important inter-relationship between the FSS and the Investment Strategy Statement. The ISS was a separate report on the agenda.

The Fund's investment strategy was kept under regular review by officers and elected members. The strategic investment consultant attended the Fund's Investment Monitoring Working Party meetings along with the independent advisors where investment strategy is considered. However, a fundamental review was undertaken at the time of the triennial valuation to ensure that the strategy remained appropriate for the Fund.

It was noted that the most significant consideration at this valuation was the move to a CPI linked valuation basis. The persistence of low interest rates, buoyancy of asset markets and increasing maturity of the Fund were also important.

Based on the actuary's assumptions, the investment consultant had undertaken a review of the investment strategy, modelling cash flows, investment returns/correlations and asset allocation to provide a stochastic projection of the Funded Status on the 'Ongoing Basis'. Following detailed

discussions with officers on these and other investment matters, which explored various permutations; a revised asset allocation had been formulated with officers and approved by elected members.

It was reported that the revised asset allocation had become effective from April 2017.

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

## **5 DRAFT PENSIONS ADMINISTRATION STRATEGY**

A report of the Director of Pensions informed Board Members of the revised Pension Administration Strategy (PAS) and the intent to consult with employers as required by the Regulations upon Pension Committee approval of the proposed changes to the policy and operational practice.

It was reported that the Fund had undertaken a review of the PAS which had last been updated in 2013 to accommodate procedural changes resulting from the introduction of both the LGPS Miscellaneous Regulations 2012 and Automatic Enrolment legislation.

It was reported that the introduction of the new CARE benefit design in April 2014 and associated final salary benefit protections had compounded the increasing complexity of administering the LGPS. Consequently, the importance of data quality and the necessity for equitable allocation of Fund resources across employers was greater than ever and had informed the review of the PAS.

The primary purpose of the review was to continue progress towards a seamless pension service, employing appropriate technology and best practice to both significantly improve the quality of information and the speed with which it was processed providing a more efficient service to Fund members.

The PAS covered primary matters as outlined in the Regulations such as administration standards, performance measures and communication with employers. It also set out the key undertakings and responsibilities of both the Fund and participating employers.

Members were informed that the PAS recognised that significant work would need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers would need to work in partnership to meet this challenge.

The Fund, like all public sector organisations, was under pressure to manage its costs and evaluate current operational functions. Therefore, resources

must be utilised to ensure compliance with statutory duties and responsibilities as defined within the LGPS regulations and overriding Pension legislation.

The LGPS regulatory framework allowed an Administering Authority to recover costs from an employing authority where costs had been incurred because of unsatisfactory performance and also to remove cross-subsidy of costs resulting from any inequitable allocation of resources.

The PAS had been revised to clearly document an extended charging policy in circumstances of persistent failure by an employer to meet administration requirements and for the provision of additional pension entitlement calculations or bespoke administration tasks.

The report further set out the timetable for implementation and it was noted that the revised PAS would be applicable from April 2018 and a draft version was attached as an appendix to the report for consideration.

Following overview of the Board and formal approval by Pension Committee, the Fund would shortly issue this document to employers for comment and feedback as part of the statutory consultation process

The consultation period was scheduled to commence from the end of July until the end of September. Work would then be undertaken to review the feedback and revise the strategy as required. The final version of the strategy would then be published in November 2017 for Pension Committee approval, in preparation for its implementation in April 2018.

**Resolved – That the PAS and the proposed schedule be noted and progressed as outlined in the report.**

## **6 INVESTMENT STRATEGY STATEMENT**

Members gave consideration to a report that provided members with a copy of the Investment Strategy Statement which had been taken to March Pensions Committee. The draft Investment Strategy Statement (ISS) was attached as an appendix to the report.

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

## **7 TRANSPARENCY CODE**

Members gave consideration to a report of the Director of Pensions that provides details of the Code of Transparency that had recently been announced by the Scheme Advisory Board.

It was reported that it had long been recognised that, in addition to the fees paid for investment management, there were further hidden costs incurred that were difficult to ascertain and so rarely reported in most pension fund accounts. There had been a number of initiatives to provide greater transparency in relation to those hidden costs. Merseyside Pension Fund had been a longstanding supporter of transparency in many areas of corporate governance and investment, and had been a proponent for greater consistency in the disclosure and reporting of all costs.

In November 2015, DCLG had set out its criteria and guidance for Investment Reform in the LGPS requiring administering authorities to bring forward ambitious proposals for pooling. One of the four primary criteria was cost savings and pools would be required to report investment performance and cost savings. It was important that this is undertaken in a consistent way.

On 18 May 2017, the Scheme Advisory Board had announced its proposals for encouraging greater fee transparency by investment managers. The Board viewed the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency was also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and was included in the government's investment reform guidance and criteria for LGPS pooling.

The Code was a voluntary code and covered the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board had worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.

It was noted that the Code was voluntary but it was anticipated that it would be adopted widely and pension funds were engaging with asset managers to encourage their participation. The current Templates only apply in relation to listed asset classes. Templates for unlisted asset classes such as private equity would be developed in due course. Peter Wallach, Director of Pensions, informed the Board that as this was likely to be a protracted period, the Fund was committing considerable resource to ensure costs relating to unlisted assets were collated.

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

A report of the Director of Pensions provided the Board with details of update reports that had been taken to Pensions Committee on 21 March 2017 in respect of pooling arrangements relating to the Northern Pool.

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

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

## **9 DRAFT ANNUAL BOARD REPORT**

Members gave consideration to a report of Mr John Raisin, Independent Chair of the Local 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 second year. The second year of the Board has been taken as from 1 May 2016 to 31 March 2017. The report also included a proposed Work Plan for 2017-18.

Under Section 11.3 of its Terms of Reference the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which was the Wirral MBC Pensions Committee. This review has been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 27 June 2017. Following consideration by the Board an approved version of this review would be presented by the Independent Chair to the Pensions Committee at its meeting to be held on 17 July, 2017.

As the Board Members had been appointed on 15 May 2015 the review of the first year of the Board (2015/16) had covered the period 15 May 2015 to 30 April 2016. This review therefore of the second year of the Board (2016-17) covered the period 1 May 2016 to 31 March 2017.

Mr Raisin outlined the key points of the report and highlighted the 88% attendance at Board meetings which demonstrated the commitment of members. He also referred to a detailed report covering a broad range of Pensions Administration matters and containing extensive statistical reporting that the Principal Pensions Officer had prepared and presented in March 2017 which he considered essential and commented that it was very positive that this was happening.

The independent Chair also acknowledged the positive contribution that had been made by Mr Phil Goodwin, Employee Representative, who had died suddenly and unexpectedly in October 2016. Mr Raisin referred to the training that had been undertaken by members of the Board and noted the Work Plan which would be updated as necessary. He acknowledged the attendance of Mr Joe Blott, Managing Director for Delivery which he commented was very positive. He concluded his summary of the report by placing on record his



appreciation and thanks to the officers for the support and guidance he had received.

**Resolved – That;**

- 1. the Pension Board Review 2016-17 be received and approved.**
- 2. the proposed Work Plan 2017-18 be approved.**

10 **TPR ASSESSMENT**

A report of the Principal Pensions Officer updated the Pension Board on Merseyside Pension Fund's assessment of compliance against the Pension Regulator (tPR) Code of Practice No.14 in relation to the key areas of governance and administration, identified by the regulator as crucial in demonstrating effective stewardship of the Scheme.

The assessment was intended to provide assurance to board members in their capacity as the statutory body responsible for assisting the Scheme manager, in ensuring the effective and efficient governance and administration of Merseyside Pension Fund.

The appendices to the report 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).

Yvonne Caddock, Principal Pensions Officer outlined the report to members and highlighted that to stress test compliance against the code, Officers had established a traffic light based model to undertake a self-assessment in adherence to the code – this had been presented to the Pension Board for comment at its meeting in June 2016. Officers had adopted a condensed monitoring programme formulated by tPR and had undertaken a further review of compliance against code of practice 14.

It was reported that the Fund had also completed the online assessment provided by the tPR and a copy of the results showing full accreditation in all areas was attached at Exempt Appendix Two of the report

Officers would keep the Pension Board apprised of progress achieved against the identified areas of improvement in relation to record keeping and communicating with members.

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

11 **COMPLIANCE MANUAL**

Members of the Board gave consideration to a report of the Director of Pensions that provided a copy of the Fund's Compliance Manual that had been taken to March Pensions Committee.

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

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

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

## **12 WORKING PARTY MINUTES**

The Director of Pensions submitted the IMWP minutes and GRWP 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 the GRWP on 7 February 2017 and IMWP on 9 February 2017, 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).

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

## **13 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.**

## **14 TPR ASSESSMENT EXEMPT REPORT**

The appendices to the report on the TPR Assessment was exempt by virtue of paragraph 3.

## **15 COMPLIANCE MANUAL EXEMPT REPORT**

The appendix to the report on the Compliance Manual was exempt by virtue of paragraph 3.

16     **ADMINISTRATION KPI EXEMPT REPORT**

The report on the Administration KPI Exempt Report was exempt by virtue of paragraph 3.

17     **WORKING PARTY EXEMPT MINUTES**

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

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## WIRRAL COUNCIL

### PENSIONS BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>ANNUAL REPORT AND ACCOUNTS - MERSEYSIDE PENSION FUND</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 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 2016/17, which contains the audited statement of accounts, and our response to the Audit Findings Report from Grant Thornton.
- 1.2 Grant Thornton has indicated there will be an unqualified opinion; there work identified no adjustments affecting the Fund's reported position for the year ended 31 March 2017 of net assets of £8.2bn and no recommendations.
- 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 with good supporting working papers.

#### 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) 810 (revised) 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 2017 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 17 July.
- 2.5 There are no adjustments affecting the Fund's reported financial position for the year ended 31 March 2017 of net assets of £8.2bn. A small number of

disclosure adjustments to improve the presentation of the financial statements and annual report have been agreed and amended.

- 2.6 Within the audit findings report against controls, two issues have been brought to your attention by the auditor:
- a) the lump sums and pension payment calculations work undertaken by internal audit has been reviewed by management with the conclusion that compensatory controls did exist, but there was a timing inefficiency. The issue has now been resolved with changes in working practices. The change to immediate payments during 2016/17 has further strengthened the control environment.
  - b) The Fund reviews internal control reports from main mandate investment managers on an annual basis; the review by the Fund did result in identifying control weaknesses, however, further assurances were obtained by the Fund on the issues identified. Future reviews will be reported to Governance and Risk Working Party.
- 2.7 The audit findings report also reports of a small number of fair value measurements disclosures that did not appear to be fully compliant with the requirements of the Code, the Fund's view is in some instances the information is already contained within other notes to the accounts, where it is not, the information was not readily available from its advisors, the Fund will continue to work with its advisors and Fund Managers.
- 2.9 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.
- 2.10 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 2017. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2017.

### **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**

<b>Briefing Note</b>	<b>Date</b>

### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>



# The Audit Findings for Merseyside Pension Fund

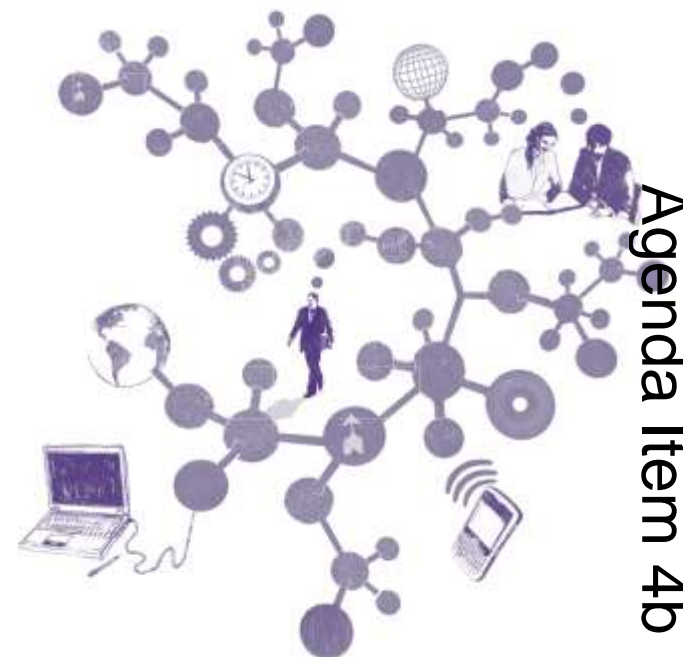
Year ended 31 March 2017

6 July 2017

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Agenda Item 4b

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6 July 2017

Dear Members

**Audit Findings for Merseyside Pension Fund for the year ending 31 March 2017**

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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

**Grant Patterson**  
Engagement Lead

**Chartered Accountants**

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**Appendices**

A Audit opinion

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# Section 1: Executive summary

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

## 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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.

## Introduction

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

Our audit plan assumed that investments categorised as Level 2 (based upon accounting standards and taking into account the *PRAG Practical Guidance: Investment Disclosures May 2016*) would not be material. Your review and restatement based upon the PRAG guidance resulted in Level 2 investments becoming material and we have undertaken enhanced procedures on these investments as a result of this change.

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

- Clearance of outstanding queries on investments and benefits payable
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion

## Key audit and financial reporting issues

### Financial statements opinion

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

We have not identified any adjustments affecting the Fund's reported financial position for the year ended 31 March 2017 of net assets of £8,178,485k. We have agreed a small number of disclosure adjustments to improve the presentation of the financial statements and annual report.

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

- Draft accounts were prepared and available for audit by 31 May 2017, one month ahead of the statutory deadline, and meeting the revised timetable that comes into effect in 2018.
- The accounts were prepared to a good standard with good supporting working papers. Our audit has not identified any significant amendments to the financial statements or annual report.
- We have agreed a small number of amendments to ensure disclosures are fully compliant with the requirements of the accounting standards.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

## 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

We draw your attention in particular to control issues identified through the work of Internal Audit in respect of pension payments, which identified some errors in the calculation of lump sum and pension payments. We considered the nature of these errors and concluded that there is no risk of material misstatement in the financial statements, and no indication of fraud.

We note that the fund has obtained and reviewed internal controls reports from the main mandate investment managers. This review identified some minor controls weaknesses, but review my management has concluded that non of the weaknesses have any significant implications for the fund. We have reviewed management's assessment and concluded this is reasonable.

Further details are provided within section two of this report.

## The way forward

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

## 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**  
**6 July 2017**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £78,000k (being 1% of net assets at 31 December 2016). We have considered whether this level remained appropriate during the course of the audit. Whilst net assets at 31 March 2017 were higher than at 31 December 2016, we determined that no change was required 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 £3,550k. 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	Materiality level
Management expenses	We will consider the completeness of disclosures to within 15% of the reported amounts	Due to public and political interest in these disclosures.
Related party transactions	We will consider the completeness and accuracy of disclosures, taking account of materiality from the perspective of the fund and the related party	Due to public interest in these disclosures and the statutory requirement for them to be made.
Key Management Personnel	We will consider the completeness and accuracy of disclosures to within 15% of the reported amounts or £15,000 (whichever is lower)	Due to public interest in these disclosures and the statutory requirement for them to be made.

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



# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none"><li>▪ there is little incentive to manipulate revenue recognition.</li><li>▪ opportunities to manipulate revenue recognition are very limited</li><li>▪ 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.</li></ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"><li>▪ Review entity level controls.</li><li>▪ Review of accounting estimates, judgments and decisions made by management.</li><li>▪ Testing of journal entries.</li><li>▪ Review of unusual significant transactions.</li></ul>	<p>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 controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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

# 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
<div>Level 3 Investments (Valuation is incorrect)</div> <div>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.</div> <div>Page 20</div>	<ul style="list-style-type: none"><li>• We have updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit.</li><li>• We have performed walkthrough tests of the controls identified in the process.</li><li>• On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31<sup>st</sup> march with reference to known movements in the intervening period.</li><li>• 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.</li><li>• For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert.</li></ul>	<p>Subject to clearance of the outstanding queries, our work has not identified any issues in respect of this risk.</p>

# 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
<b>Investment Income</b>	Investment activity not valid. Investment income not accurate. (Accuracy)	<ul style="list-style-type: none"> <li>For those investments managed by external fund managers and custodied with Northern Trust, 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</li> <li>For those assets not held by the custodian, we have reviewed the reconciliation of information provided by the fund managers and the Pension Fund's own records and sought explanations for variances</li> </ul> <p>For all assets:</p> <ul style="list-style-type: none"> <li>Tested a sample of investment income to ensure it was appropriate</li> <li>Completed a predictive analytical review for different types of investments</li> <li>For direct property investments rationalised income against a list of properties for expected rental income.</li> </ul>	Subject to the clearance of outstanding queries, our work has not identified any significant issues in respect of this risk.
<b>Investment purchases and sales</b>	Investment activity not valid. Investment valuation not correct	<ul style="list-style-type: none"> <li>For those investments managed by external fund managers and custodied with Northern Trust, 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</li> <li>For those assets not held by the custodian, we have reviewed the reconciliation of information provided by the fund managers and the Pension Fund's own records and sought explanations for variances</li> </ul> <p>For all assets:</p> <ul style="list-style-type: none"> <li>Tested a sample of purchases and sales to verify the occurrence and value of the transaction</li> </ul>	Subject to the clearance of outstanding queries, our work has not identified any significant issues in respect of this risk.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Investment values – Level 2 investments</b>	<p>Valuation is incorrect. (Valuation net)</p> <p>We did not identify this risk in our audit plan due to Level 2 Investments not being material in prior years. In 2016/17 you have classified a material value of investments in Level 2.</p>	<ul style="list-style-type: none"> <li>For those investments managed by external fund managers and custodied with Northern Trust, 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</li> <li>For those assets not held by the custodian, tested a sample of Level 2 investments to independent information from custodian/manager on units and on unit prices.</li> </ul>	Our work has not identified any significant issues in respect of this risk.
<b>Contributions</b>	Recorded contributions not correct. (Occurrence)	<ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions</li> <li>Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>	Our work has not identified any significant issues in respect of this risk
<b>Benefits payable</b>	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<ul style="list-style-type: none"> <li>Controls testing over, completeness, accuracy and occurrence of benefit payments.</li> <li>Tested a sample new starter pensions in payment by reference to member files.</li> <li>Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> <li>Confirmed the annual pension increase has been updated in the Altair system correctly</li> </ul>	Subject to the clearance of outstanding queries, our work has not identified any significant issues in respect of this risk.
<b>Member Data</b>	Member data not correct. (Rights and Obligations)	<ul style="list-style-type: none"> <li>Controls testing over annual/monthly reconciliations and verifications with individual members.</li> <li>Tested a sample of changes to member data made during the year to source documentation.</li> </ul>	Our work has not identified any significant issues in respect of this risk.

# Audit findings against other risks continued

## Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern assumption is appropriate.

## Fair Value Measurement Disclosures

The 2016/17 Accounting Code of Practice removes the scope exclusion on the disclosures for investments measured at fair value and introduces some new disclosure requirements in respect of Level 3 investments. We identified a small number of disclosures that did not appear to be fully compliant with the requirements of the Code.

Management considered the new disclosure requirements, specifically in respect of the requirements of paragraph 2.10.4.1 of the Code, as part of the accounts preparation and concluded that these new disclosures were not required because they were either already covered by existing disclosure in the accounts, or, in the case of quantifiable sensitivity disclosures, because consultation with industry experts indicated that the required sensitivity information was not readily available.

We have noted that paragraph 2.10.4.1 3(d) states that an authority is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the authority when measuring fair value but that (i) requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs. As noted above the Fund's current view is that it does not develop the unobservable inputs and the information is not readily available from its advisers and therefore it is not possible to fully comply with the Code at this time. We are satisfied that the omission of these disclosures is not significant to the overall presentation of the financial statements.





## Fair Value Hierarchy

Note 14 to the financial statements provides the Fair Value Hierarchy, which classifies asset valuations into three levels, according to the quality and reliability of information used to determine fair values. Following updated Pensions Research Accountants Group (PRAG) guidance (*PRAG Practical Guidance: Investment Disclosures May 2016*), the fund undertook a review of its fair value hierarchy classifications during 2016/17. Based upon this new information the fund has restated the disclosures for 2015/16.




Our testing of investment valuations has included consideration of the appropriateness of the classification in the fair value hierarchy and we are satisfied that the judgements made by management are reasonable.

# 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The revenue recognition policies are appropriate to the accounting framework and are adequately disclosed in the accounting policies.</li> </ul>	 <b>(Green)</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Valuation of unquoted investments within private equity, infrastructure property and other alternative investments.</li> </ul>	<ul style="list-style-type: none"> <li>We have undertaken testing on a sample of unquoted investments to assess the appropriateness of the valuation.</li> <li>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.</li> <li>The potential financial statement impact of different assumptions is adequately disclosed in Note 15 to the accounts.</li> </ul>	 <b>(Green)</b>
<b>Going concern</b>	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 2016/17 financial statements.	 <b>(Green)</b>
<b>Other accounting policies</b>	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.	 <b>(Green)</b>

## Assessment

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


# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>We have requested a standard letter of representation from the Fund.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>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.</li> <li>We have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>



# Internal controls

As noted on page 6, we draw your attention in particular to control issues identified through the work of Internal Audit in respect of pension payments. Internal Audit tested a sample of 20 new pension payments and lump sum payments during 2016/17. In 2 of the cases tested, errors were identified in either the calculation of the lump sum payment or the first pension payment. We have considered the nature of these errors and concluded that there is no risk of material misstatement in the financial statements, and no indication of fraud.

	Assessment	Issue and risk	Management Response
1.		Errors in the calculation of lump sum payments and pension payments could result in losses to the fund, and under or overpayment to pensioners.	Management have identified planned actions to address the issues identified. The detailed Internal Audit Report and management response was considered by the Governance and Risk Working Party on 6 <sup>th</sup> July 2017

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Assessment

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

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)



# 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		Account balance	Impact on the financial statements
1	Disclosure	Note 5 - Estimation	The prior year figures for unquoted assets referenced in note 5 was incorrect in the draft accounts. This reference has been corrected to include the value of Direct Property investments.
2	Disclosure	Note 14 – Fair Value Hierarchy	The narrative note to explain the restatement of the 2015/16 Fair Value Hierarchy has been amended to quantify the impact of the restatement.
3	Disclosure	Various	A small number of minor amendments have been agreed to improve the overall presentation of the financial statements

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

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01.	Executive summary
02.	Audit findings
03.	<b>Fees, non audit services and independence</b>
04.	Communication of audit matters

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 (TBC)	2,180	2,180
<b>Total audit fees (excluding VAT)</b>	<b>39,062</b>	<b>39,062</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The fee variation for IAS 19 has yet to be agreed with PSAA, and has not been billed.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No non-audit or audit related services have been undertaken for the fund.

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# Section 4:   Communication of audit matters

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

# Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.

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

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# Appendices

A. Audit Opinion

# A: Audit opinion

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL

We have audited the pension fund financial statements of Wirral Council (the "Authority") for the year ended 31 March 2017 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 2 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 and auditor

As explained more fully in the Statement of Responsibilities, the Head of Financial Services 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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; 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 2017 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 the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

### Grant Patterson

for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building, Liverpool L3 1PS

[Date]

**Independent auditor’s report to the members of Merseyside Pension Fund on the consistency of the pension fund financial statements included in the Merseyside Pension Fund annual report**

**Opinion**

The Merseyside Pension Fund financial statements of Wirral Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Merseyside Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying Merseyside Pension Fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

**Pension fund annual report - Pension fund financial statements**

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 and the auditor’s report thereon is not a substitute for reading the audited Statement of Accounts and the auditor’s report thereon.

**Who we are reporting to**

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.

**The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated [\*\*insert date of opinion on the financial statements in the Statement of Accounts\*\*].

**Head of Financial Services’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 of the Authority 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 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 2016/17.

**Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Grant Patterson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building  
Liverpool  
L3 1PS

**[Date of the auditor’s report]**





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# Merseyside Pension Fund Report & Accounts 2016/17



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# Management Structure

## Pension Fund Management Committee

### Chair:

Cllr P Doughty

Wirral

### Vice Chair:

Cllr A McLachlan

Wirral

Cllr T Anderson

Wirral

Cllr P Cleary

Wirral

Cllr G Davies

Wirral

Cllr A Jones

Wirral

Cllr T Jones

Wirral

Cllr B Kenny

Wirral

Cllr C Povall

Wirral

Cllr GCJ Watt

Wirral

Cllr T Byron

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

Managing Director, Delivery

Peter Wallach

Director of Pensions

Yvonne Caddock

Principal Pension Officer

Surjit Tour Head of Legal & Democratic Services

Colin Hughes

Group Solicitor

## Advisers to Investment Monitoring Working Party

Managing Director, Delivery

Director of Pensions

Senior Investment Manager

Aon Hewitt

Noel Mills

Rohan Worrall

## Advisors to Governance and Risk Working Party

Managing Director, Delivery

Director of Pensions

Principal Pension Officer

### 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

Northern Trust

#### 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 2017. 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.



## 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 over the twelve months up to 31 March 2017, a great deal of change has occurred politically and in financial markets. Against this backdrop, and despite our expectations this time last year that returns would be lower, the Fund returned 21.5% compared to its bespoke benchmark return of 17.8%, increasing in value to over £8.1bn.

The period under review started calmly, but the United Kingdom's referendum on membership of the European Union was the main event of the quarter. The results announced on 24 June 2016, revealed that the UK had voted by a majority to leave the EU. The outcome shocked investment markets, despite polls before the referendum suggesting that the vote could go either way and UK Prime Minister David Cameron announced that he would step down. The initial reactions in markets were pronounced: sterling fell dramatically, safe haven assets like government bonds rallied and equity markets were marked lower. Equity markets generally staged a recovery

in the final days of the quarter, supported by expectations that interest rates would stay lower for longer.

The initial shock passed quickly enough and equity markets rebounded. Equity investors were bolstered by accommodative central banks; the Bank of England (BOE) followed through on its commitment to cut interest rates to cushion the impact of Brexit, while the European Central Bank (ECB) and US Federal Reserve (Fed) kept interest rates unchanged.

The final quarter of 2016 was dominated by the US presidential election and the surprise victory for Donald Trump, a result which confounded polls, commentators and markets alike. Volatility ensued as investors tried to glean policy cues and implications from a distinctly non-traditional campaign. On the whole, equity markets were net winners and bond markets were net losers. As markets moved to price 'reflation', the US dollar strengthened, inflation expectations were revised up and additional US federal borrowing was factored in to fund more expansionary fiscal policy.

More detail is provided in the Investment Report on page 23.

Volatility in financial markets is showing signs of increasing and we are positioning 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 triennial valuation was undertaken at 31 March 2016. 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 final position at 31 March 2016 showed an increase in assets to £6.85bn with liabilities calculated to be £8.08bn and our funding level improved to 84.8%.

## 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 ever evolving Scheme.

With numbers of members affected by early retirement and redundancy programmes, 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 encouraging greater use of electronic media to enhance efficiency.

The Annual Employers' Conference was held at Aintree Racecourse in November 2016. The event was well attended and featured speakers from the Fund's actuary, the Chair of the Pension Board and officers of the Fund.

## Past Changes and the Future

The Pension Board introduced in 2014, has now completed its second full year of operation. Further information is contained in the discrete Pension Board Report on page 9.

New LGPS Investment Regulations came into effect in November 2016. They have moved the regulatory framework from a prescriptive to a prudential regime; more akin to that pertaining to private sector schemes. A further significant change is the replacement of the Fund's Statement of Investment Principles with an Investment Strategy Statement.

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 develop efficiencies in the way in which we work.

The Fund maintains its work with Greater Manchester Pension Fund and West Yorkshire Pension Fund (known as the Northern Pool), in response to the Government's investment reform agenda, to deliver cost savings and efficiencies whilst maintaining investment performance.

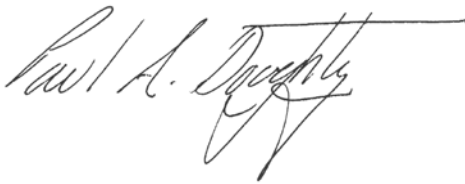
Savings will arise predominately from the increased resources of the Pool, enabling alternative asset classes to be accessed in a more cost-effective way. We have already made steps in this direction. In December 2016, MPF formally joined with four other local government funds to create a £1.3bn asset pool to invest collectively in infrastructure projects. I expect that I will be able to report on other initiatives of this type as we work towards the government's April 2018 deadline for full pooling. Pooling is a significant undertaking and the resources and costs required to deliver the changes required, should not be underestimated. It will also result in fundamental changes to the oversight of LGPS assets and it is essential that appropriate governance arrangements are in place.

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.

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## **Preparation of Report**

This Annual Report has been produced in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.

A handwritten signature in black ink, appearing to read 'Paul A. Doughty', with a long horizontal line extending from the end of the signature.

**Councillor Paul Doughty**  
**Chair, Pensions Committee**  
**June 2017**



# Management Report

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## Management of the Fund

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

In 2016/17, 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 Managing Director, Delivery 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 for 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 2016. 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 Investment Strategy Statement (ISS) 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 the 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 Managing Director, Delivery 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 ISS.

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

An additional source of assurance is provided by the Local Pension Board. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme in securing compliance with legislation and ensuring the effective governance and administration of the Fund. A separate report on the Board's activities is contained in this report.

## 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 advisors and industry best practice in assessing and establishing policies to identify and mitigate those risks.

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

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

Copies of these documents are available from the Fund and are published on its website at: **[mpfund.uk/risk](http://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 once a year 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 assigned 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 Managing Director, Delivery 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. This includes 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 includes a minimum of two presentations which 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 actuarial valuation process was identified as an area of development. Members received various presentations and briefings on this topic. Similar arrangements were made in relation to investment pooling which remained an area of focus for officers and Members.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed on page 8.

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	PLSA LA Conference
June	IMWP
June	Pensions Committee
June	GRWP
September	IMWP
September	Pensions Committee
September	LGC Investment Summit
October	IMWP
October	LGE Fundamentals
October	PLSA 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
February	GRWP
February	IMWP
March	LGC Investment Conference
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 Managing Director, Delivery 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

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Local Pension Boards were established across the Local Government Pension Scheme with a requirement to become operational from 1 July 2015 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 Pensions Regulator (TPR) in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

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 TPR. There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

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

The Board held three meetings during the period (see below). In addition, a rigorous training programme was undertaken involving internal and external training as set out in the table entitled, 'Attendance & Training Record' on page 11. A number of Board members have attended Working Parties to gain greater familiarity with the activities and procedures of Pensions Committee in managing the governance and structural arrangements of the Fund to support sound decision-making.

## Board Changes

I regret to inform you that Mr Philip Goodwin passed away unexpectedly in September 2016. We are grateful for his valuable contribution to the Board during his tenure as an active scheme member representative. In April 2017, Mr Roger Irvine joined the Board as the new active member representative and we look forward to working with Roger in the future.

## Work Plan 28 June 2016 meeting

1. LGPS update
2. CIPFA Knowledge & Skills Framework
3. The Pensions Regulator Survey
4. Pension Board Review & Work Plan 16/17
5. Compliance Statement - TPR Code of Practice
6. Pooling Update
7. IMWP minutes

**Work Plan 11 October 2016 meeting**

1. Audit Findings Report & Draft Annual Report & Accounts
2. Investment Performance
3. LGPS update
4. Treasury Management Annual Report
5. GAD Section 13 Dry run
6. CIPFA Training event
7. Annual Employers' Conference
8. Final Pooling Submission
9. Non-recovery of Pension Overpayments
10. IMWP/GRWP minutes
11. Administration KPI report

A work plan for 2017/18 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.

**Work Plan 16 March 2017 meeting**

1. LGPS update
2. Member Development Programme
3. Pooling update
4. Treasury Management Strategy
5. Business Planning
6. Investment Strategy Statement guidance
7. Draft Funding Strategy
8. MIFID consultation
9. IMWP minutes
10. Administration KPI report

**Pension Board Work Plan 2017 - 2018**

<b>Agenda Item</b>	<b>27/6/16</b>	<b>10/10/16</b>	<b>2018</b>
LGPS Update	•	•	•
Administration KPI Report	•	•	•
Pooling Update	•	•	•
Audit Plan	•		
Pensions Administration Strategy		•	
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	•		

## Attendance & Training Record

ATTENDANCE RECORD 2016-17	PENSION REGULATOR PUBLIC SECTOR	FUNDAMENTAL TRAINING DAY 1	FUNDAMENTAL TRAINING DAY 2	FUNDAMENTAL TRAINING DAY 3	LGPS TRUSTEES CONFERENCE	PLSA ANNUAL CONFERENCE	MPF ANNUAL CONFERENCE	PENSION BOARD MEETINGS			
		OCT	NOV	DEC	23-24 JUN	19-21 OCT	29 NOV	14 APR	28 JUN	11 OCT	16 MAR
John Raisin (Chair)	•							•	•	•	•
Geoff Broadhead	•	•	•	•			•	•	•		•
Kerry Beirne	•						•	•		•	•
Robin Dawson	•	•	•	•	•	•	•	•	•	•	•
Phil Goodwin						•		•	•		
Mike Hornby	•					•		•	•	•	•
Pat Moloney	•					•	•	•	•	•	•
Donna Ridland	•	•	•	•		•	•		•	•	•
Paul Wiggins	•							•		•	•

## Costs of Operation

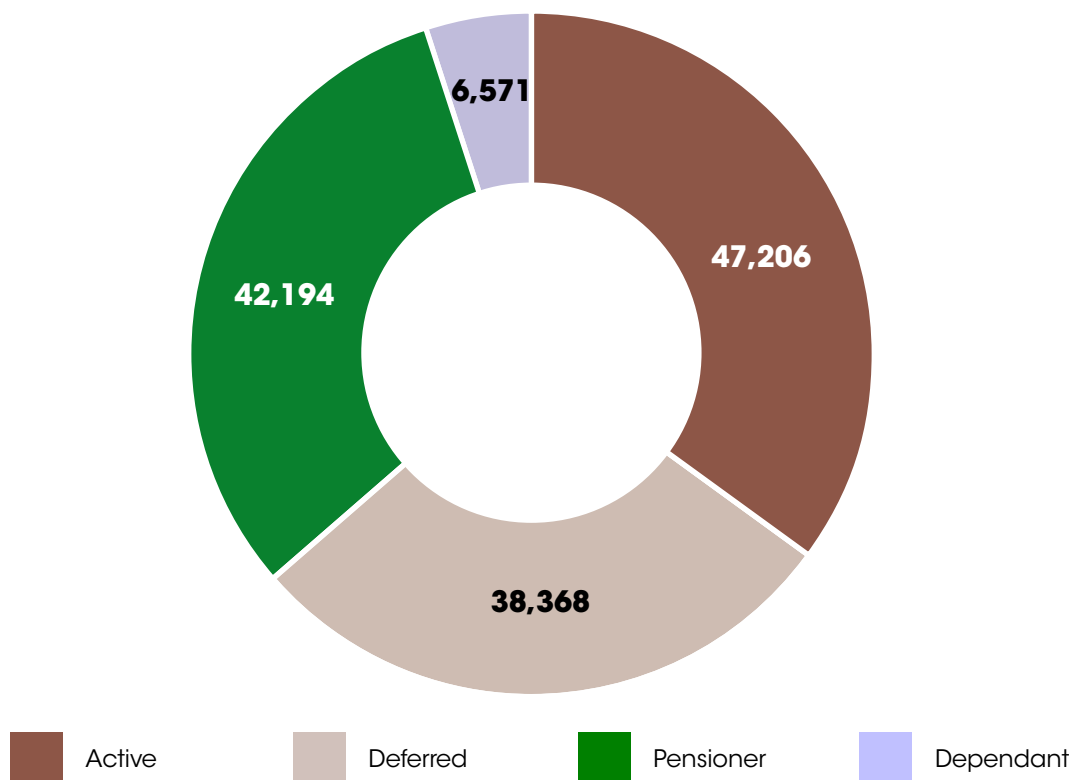
Training	£3,044
Transport	£2,676
Allowances	£11,880
Other	£460
<b>Total</b>	<b>£18,060</b>

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

A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 19 September 2017.

# Membership Statistics

## Membership as at 31 March 2017



## 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				406	1,901	3,244	3,818	4,663	5,271	7,503	8,844
Deferred				2	256	1,874	3,479	3,992	4,627	6,685	8,775
Pensioner							5	9	51	236	607
Dependant	2	18	51	126	64	11	12	18	29	78	176

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	7,157	3,577	679	143							47,206
Deferred	7,242	1,249	145	40	2						38,368
Pensioner	2,776	9,043	10,442	7,953	5,168	3,422	1,741	612	115	14	42,194
Dependant	306	454	683	898	1,023	1,112	891	471	134	14	6,571
<b>Total</b>											<b>134,339</b>

## Key Membership Statistics 2013 - 2017

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2017	47,206	38,368	42,194	6,571	134,339
31 March 2016	46,221	37,136	41,136	6,588	131,081
31 March 2015	45,420	36,237	39,915	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







# Scheme Administration Report

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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 which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants; along with ill health, redundancy and death cover.

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 and an increase in National Insurance costs for both employers and members.

## Outcome of Hutton Review of Public Service Pension Schemes

As a result of Hutton's 'grass roots review' of public service pensions, the government's position was that public service pension schemes should be of value to employees and fair to employers, along with the taxpayer. This would be delivered by retaining a defined benefit pension entitlement for all employees, subject to an affordable cost envelope being agreed amongst all stakeholders. Following in depth consultation with trade unions and the Local Government Association (LGA), a new overarching benefit structure was delivered across the public sector.

## LGPS2014 - New Scheme Design

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect in the form of a career average revalued earnings (CARE) scheme and replaced the final salary scheme in respect of future accrual of pension benefits.

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.
- The ability for employers to switch on the '85 Year Rule' in regard to members benefits if they voluntary retire between age 55-60.

### Future-Proofing the Scheme

National policy direction is to ensure that the benefit design is fair to taxpayers, caters for the make-up and needs of the disparate workforce, and is flexible in responding to the changes in the financing of the public purse and the broader fiscal environment. As such, a collaborative agenda has emerged between the Government, Scheme Advisory Board, Employer and Employee representatives to control and manage investment and administration costs; safeguarding the future sustainability of the Scheme.

### Governance of the Administration Function and Cost Management

The Public Service Pensions Act 2013 and the LGPS Governance Regulations 2015 provide a robust framework to support sound decision-making and increase the transparency of the Administering Authority's accountability for the management and administration of the Scheme. This is carried out through 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 Pensions Regulator (TPR) to the LGPS.
- An employer cost capping regime.

### 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 Pension Committee and the Pension Board can be accessed from the Fund's website at: [mpfund.uk/fund-gov](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, whilst also assisting funds themselves in their effective and efficient management and administration.

A crucial target of the SAB is to produce Key Performance Indicators (KPIs) to benchmark funds in ensuring effective governance, consistent funding parameters and cost-effective administration across the LGPS.

## Cost of the Scheme to Employers and Employees

The Scheme is based on a target 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%.

A 'two pronged' cost management process, governed by the Scheme Advisory Board and HM Treasury is embedded within the regulations to control the future costs of the Scheme.

If an evaluation under the cost control mechanism shows that the costs of the Scheme have moved from the target cost, changes must be made to bring the cost back to the target.

To support the process, the Government Actuary's Department (GAD) is scheduled to undertake a comprehensive assessment of financial transactions relating to pre and post-2014 pension entitlements, along with cash flows to measure the costs; with the outcome on Scheme design effective following the 2019 triennial valuation.

The Fund took part in the system supplier's 'Testing Working Party' to gain early insight into the required system and operational changes to generate the split transactional data with effect from April 2017, for submission to GAD as part of the 2019 valuation exercise.

Past service deficits are outside of the cost management process, but the Scheme Advisory Board's 'Deficit Working Group' is committed to the attainment of an 'innovative approach to deficit management' at both Fund and employer level in the LGPS.

## Earnings Bands for Employee Contributions

The earnings bands on which employee contributions are calculated were changed for the financial year 2017/18. The bands increased

in line with CPI inflation as at September 2016 which was 1%. This is not a contribution increase, but reflects the usual indexation of the earnings bands.

The Fund has notified employers of the correct employee rates to apply from April 2017 as follows:

Pay Bands	Contribution Rates (per employment)
Up to £13,700	<b>5.5%</b>
£13,701 - £21,400	<b>5.8%</b>
£21,401 - £34,700	<b>6.5%</b>
£34,701 - £43,900	<b>6.8%</b>
£43,901 - £61,300	<b>8.5%</b>
£61,301 - £86,800	<b>9.9%</b>
£86,801 - £102,200	<b>10.5%</b>
£102,201 - £153,300	<b>11.4%</b>
£153,301 or more	<b>12.5%</b>

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 2017 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.

## Legislative Change

There has been no regulatory change to the LGPS over the reporting period, although the following consultations have been published, all of which will have a direct impact on the core benefits, scheme design and policies.

### Local Government Pension Scheme (Amendment) Regulations

The regulations which constitute the new LGPS contain provisions which require clarification or revision in order to streamline administration and remove complexity.

The proposed amendments address the technical anomalies and introduce 'New Fair Deal' principles where local authority staff are compulsorily transferred to a private sector employer.

The Fund responded to the proposed policy developments to highlight the necessity for simple administration and provisions which are financially balanced between the membership and the employer.

### **Indexation and equalisation of GMP in Public Service Pension Schemes.**

The ending of the additional state pension has led to the need to consider how public service pension benefits will be affected for those who were employed between 6 April 1978 and 5 April 1997, accrued a Guaranteed Minimum Pension (GMP) and will attain state pension age after 5 December 2018.

The consultation addressed whether public service pension schemes should provide full indexation on any GMP the public service pension scheme pays and put forward a number of possible solutions.

The Fund response focused on the necessity to retain levels of promissory retirement income to maintain confidence in pension savings and seeks provisions which are understandable to assist in informing retirement financial planning.

### **Pension Scams**

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

The Fund is supportive of the suggested actions and responded to the consultation - calling for robust statutory controls to provide ceding schemes with the assurance that demonstrable due diligence checks will permit administrators to refuse to pay unauthorised transfers; protecting both members and pension funds from penal tax charges.

## **Key Projects and Developments**

### **Annual Return Process and Data Quality**

During the scheme year the focus of administrative activity was to ensure the timely receipt of employer annual contribution returns. As a result of the Fund's earlier engagement with employers and proactive intervention in resolving any employer issues, there has been a significant increase in the number of employers submitting timely 2016 annual return files. The administration team has continued to work with employers on outstanding data items and has maintained its programme of active engagement. Overall there has been a continued reduction in the number of outstanding data items, particularly in terms of outstanding leavers, joiners and casual employment returns.

Action plans have been agreed with large employers with voluminous data gaps and Fund Officers have committed to support employers in aligning their systems to electronically interface with the Fund's pension administration system.

### **Triennial Actuarial Valuation**

The Fund completed and submitted its membership data and cash flow information to the actuary by the prescribed deadline, enabling the 2016 valuation to be undertaken. The concentration of effort was to ensure all records were processed to reflect the correct member status in readiness to submit the valuation extracts to the actuary. This resulted in the processing of large numbers of new starters, leavers, transfers and aggregation of records over the period.

A number of employer forums were arranged during November, in conjunction with the actuary, to discuss individual funding results, explain the valuation approach and open the consultation about the Funding Strategy Statement. The purpose of the forums was to assist employers in presenting an informed opinion on the valuation assumptions and funding strategy, in order to explore variants to the provisional employer contribution schedules.

In tandem with the valuation work as part of the Fund's wider risk management strategy, an exercise has been undertaken to identify and monitor the covenants of employers that potentially pose a high risk of default. The results of the covenant analysis will feed into the project of developing different investment strategies for employers, referred to as 'investment buckets'.

### **Guaranteed Minimum Pension (GMP) Reconciliation**

As a result of the ending of contracting out in April 2016, HM Revenue & Customs (HMRC) will be sending members a statement of the amount of Contracted Out Pension Equivalent (COPE) they will receive and who is responsible for paying this pension.

Ahead of issuing this statement, HMRC is advising that schemes should reconcile the GMP values held for members with those calculated by HMRC, or risk making overpayments to existing members and even for individuals for whom they have no liability.

The Fund has undertaken an analysis of its data which illustrates that we have 90% recognition of the HMRC records, although there is further analysis required on a granular level to verify the GMP value and to determine whether the amounts are within nationally agreed tolerance levels. The initial priority is to investigate the 10% of records notified by HMRC that are not recognised on the Fund's system as LGPS members.

### **Procurement of Pension Administration System**

The Fund has completed the procurement of a pensions administration system, entering into a new contract with the current supplier, Aquila Heywood, until December 2021.

As part of the new contractual arrangements, the Fund has made the strategic decision to take on the additional provision of document management and workflow functionality.

A project has now been initiated to manage the migration of eight million documents from the current document management system into an integrated system provided by Aquila Heywood. This project will also involve the creation of new operational workflow processes to support the day-to-day work of the administration team.

## **Operational Improvements**

### **Immediate Payments**

The Fund has implemented a change in the payment processing of lump sum retiring allowances, death grants and first payment of pension by utilising the pension administration system's 'immediate payment' facility, as opposed to manual interventions outside of the computer network.

Migration to a single system process using BACS payments through the internal pension payroll has led to significant efficiencies and resource savings across the Fund.

### **'Straight Through Processing' of New Member data**

Work is being undertaken to introduce a process to digitally import new member data, as supplied from the largest employers, into the pension administration system. The work is focusing on the alignment of data fields, the quality of the supplied data and the associated impacts to the supporting document management system and workflow processes.

It is expected that this will result in a significant reduction of manual data inputting and resource efficiencies which can be channelled into supporting employers to address data quality deficiencies.

## **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 administers 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;
- 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 regard to 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 Pensions Regulator and the Scheme Advisory Board.

The review of the team's capacity demonstrates a positive response to the Scheme Advisory Board's authoritative directive that all 'LGPS Administering Authorities should comply with their statutory obligation to ensure sufficient resources are maintained to administer the Fund and improve data quality'.

The Fund plans to seek approval from the Pensions Committee during 2017, for a revised administrative structure.

### **Pensions Administration Strategy**

The Fund's Pensions Administration Strategy (PAS) sets out the policy for administering the Fund, the standard of service to be delivered and the roles and responsibilities of employers.

The primary objective of the PAS 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 PAS 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 PAS 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 Fund is reviewing its charging policy, in those circumstances where an employer fails to meet prescribed deadlines, and is evaluating the impact of the provision of non-statutory information on the cost of administering the service.

### **Collaborative Working**

The Fund keeps abreast of best practice by participating in collaborative groups such as the Local Government Association Communication Group and the Shrewsbury Pensions Officer Group. These offer opportunities 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 costs are reviewed by the Pensions Committee, which approves 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 surveys funds annually to collect administration and fund management costs in 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 are also used in compiling the National Accounts, showing the role of pension funds in the economy.

The administration cost reported in the 2015-16 'SF3' statistical return was £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, value for money services to all of our customers, without discriminating against any social grouping by age, gender, race, disability, sexual orientation or religious belief.

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 of our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information;
- carefully listen, consider and respond to communications that we receive;
- use plain English where possible and avoid unnecessary jargon;
- use the communication method that best suits the audience.

The Fund is reviewing this Policy in view of its migration to a digital operating model. The current policy can be viewed at:

**[mpfund.uk/commopol](http://mpfund.uk/commopol)**

## Member Communications

The principal communication issued to active and deferred members each year is the Annual Benefit Statement, and electronic versions have been available electronically since 2013 via the Fund's online 'MyPension' service.

The Fund has previously communicated to members that statements will only be available electronically from 2016 - although paper copies are available on request and alternative versions are produced for members with additional needs.

Fund officers worked with employers in promoting the 'MyPension' service, to further encourage active members to register in advance of the

Annual Benefit Statement production deadline. The Fund provided employers with suitable text for staff newsletters, briefings, intranet sites and broadcast emails. On production of the statements, employers were asked to utilise the same communication channels to inform members of their availability online.

In August 2016, the Fund wrote to all deferred members who had not registered for the 'MyPension' service, informing them that statements would no longer be posted to their home address but would only be available digitally.

The Communications team continued to deliver presentations to active members upon employer request. As many organisations are facing restructure, the team produced tailored presentations to support staff and provide information on how their pension benefits may be affected.

## Presentations for Scheme Members

	Events	Approx. Attendees
<b>Retirement Planning Course</b>		
Hosted at Employer Premises	8	139
<b>Mid-Life Planning Course</b>		
Hosted at Employer Premises	1	16
<b>Presentations about the LGPS</b>		
Hosted at Employer Premises	15	378
<b>Total</b>	<b>24</b>	<b>533</b>

## Employer Communications

The Fund has a secure Employers' 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 uses the Employers' Website to announce news, revisions to forms and other pertinent information - each registered user receives an email notification of any news or change to the administration of the Scheme.

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. Practitioner training sessions are provided by Fund Officers, to provide guidance on employer duties, operational practice and direction in completing Fund forms.

Over the reporting period the Fund experienced an increase in requests for regulatory and funding advice from local authorities. This is required by authorities to inform their due diligence and option appraisals in selecting appropriate delivery models, in order to enhance the quality of future services and to increase value for money.

Given the importance of the objectives behind these alternative delivery models, turning them into a success is paramount. Therefore, to ensure project sponsors at the district councils were fully aware of related pension scheme matters, the Fund arranged a workshop with the actuary in December 2016. The workshop was well received by attendees and Fund officers were grateful for the positive feedback in regards this event.

## Events for Employers

	Events	Approx. Attendees
<b>Practitioner Training</b>	5	28
<b>Topic-specific Seminar/ Workshop</b>		
Funding Strategy Statement and Valuation Form for Employers (November 2016)	2	73
Workshop on Alternative Delivery Models in Local Government and Pensions (December 2016)	1	28
<b>Annual Employers' Conference</b>	1	107

## 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.

## Risk Management

The Fund maintains Risk Register and Business Continuity Plans which are regularly monitored and reviewed:

- The Fund's Management team regularly reviews and updates the Risk Register
- All risks are considered and monitored in light of their likelihood and impact, with any mitigating action taken as necessary
- The Risk Register is reviewed twice a year by the Governance and Risk Working Party
- An on-going framework of inspection and review by Wirral Council's Audit Team and external auditors supports and assist with the management of risks



## Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	98
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	99
4. Provision of Inward Transfer Quotes	10 days	100
5. Notification of Deferred Benefits	22 days	99
6. Provide Valuation in Divorce Cases	10 days	100
7. Respond to Members Enquiries	10 days	80

(Details given in respect of 12 month period to 31 March 2017)

## 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.

## Breakdown of IDRP Cases 2016-2017

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

Appeal against reason for Termination of Employment	1
Employer Refusal of Flexible Retirement	1
Employer to Reconsider Stage 1 Process	1
Appeal Against Reason for Leaving as Capability	1
Incorrect Benefit Estimate	1
Appeal Against Tier 3 Ill Health Award	2
Added Years Incorrectly Calculated	1
Appeal Against Payment of Death Grant	1
Ombudsman Referral to Reconsider IDRP Process	1
<b>Total</b>	<b>10</b>

## Appeals Against Employer Decisions

Employer	Number	Employer Decision
Magenta	1	Upheld
Liverpool	2	1 Upheld/1 Granted
Helena	1	Upheld
Wirral	2	1 Upheld/1 Granted
Chesterfield High Academy	1	Not yet determined
Trafford/GMPF	1	Upheld on technicality
<b>Total</b>	<b>8</b>	

## Appeals Against Fund Decisions

Reason for Appeal	Number	Fund Decision
Incorrect Calculation of Added Years used in Retirement Benefit Calculation	1	Upheld
Appeal Against Award of Death Grant	1	Upheld
<b>Total</b>	<b>2</b>	

## Appeals to the Pensions Ombudsman

Reason for Appeal	Number of Appeals	Fund Decision
Award of Death Grant	1	Upheld

The decision upheld by the Pensions Ombudsman related to the award of the death grant and the Fund's decision-making process in compliance with the LGPS regulations.

# Investment Report

Year ended 31 March 2017

Global geopolitical developments provided the most significant headwinds to investment markets over the financial year to the end of March 2017.

On June 23 2016, the United Kingdom voted to leave the European Union, leading to a sharp correction in UK-focused equity prices and a depreciation of sterling of around 7% on a trade-weighted basis.

However, once the markets had digested the ramifications of the unanticipated referendum outcome, asset prices recovered over a short period and were given a further impetus by the Bank of England's Monetary Policy Committee on 4 August 2016 when it announced a package of measures to support the economy, including a cut in Bank Rate and expanded asset purchases.

Markets were caught off guard for the second time over the period, with the surprise result of the US election. On 8 November 2016, the US S&P 500 futures plunged as much as 6%, 10-year Treasury yields declined by almost 20 basis points, and the dollar weakened by 2% against a basket of currencies.

Once again, markets recovered quickly, and in the first few days after the election, equity prices and bond yields rose on expectations of faster growth and higher corporate profits in the United States, and on an anticipated shift towards a more expansionary fiscal policy, lower taxes, and a relaxation of regulation. In particular, campaign pledges to launch a \$1trillion fiscal stimulus package equivalent to around 5% of US GDP, and to cut personal and corporate taxes added further momentum to an upward shift in market sentiment.

Notwithstanding the uncertainties of the general market environment, investment returns were positive across all major asset classes over the period with risk assets (equities) outperforming traditional safe haven assets (bonds) and real assets such as property. Stock markets throughout the developed world generated double-digit returns with the United States and Japan returning over 30%, Europe 25% and the UK over 18% in sterling terms. The UK market benefited from the depreciation in sterling following Brexit given that around two-thirds of revenues from the largest listed companies are generated overseas.

Bond markets, with higher inflation expectations and a rise in US interest rates priced in also generated positive returns with index-linked bonds benefiting from heightened inflation expectations.

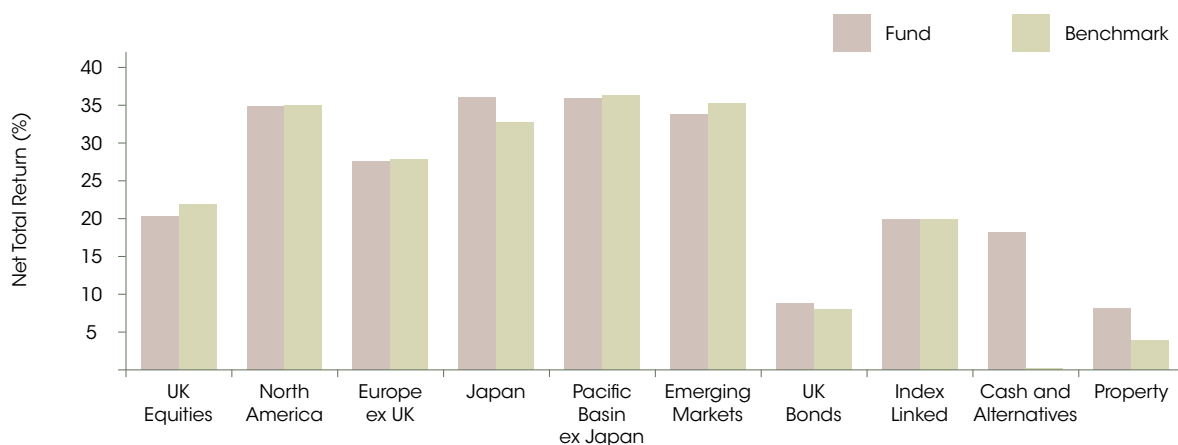
The annualised performance of the Fund against its benchmark for 1, 3, and 5 year periods is tabulated below.

	1 Year	3 Year	5 Year
Merseyside Pension Fund	21.45%	11.44%	10.72%
Benchmark	17.79%	9.19%	8.63%
Relative Return	3.11%	2.06%	1.92%

The Merseyside Pension Fund returned 21.45% in the financial year to the end of March 2017 compared to its bespoke benchmark return of 17.79%, an outperformance of 3.11% and was comfortably ahead of the Consumer Price and Average Earnings indices over one, three, and five years.

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

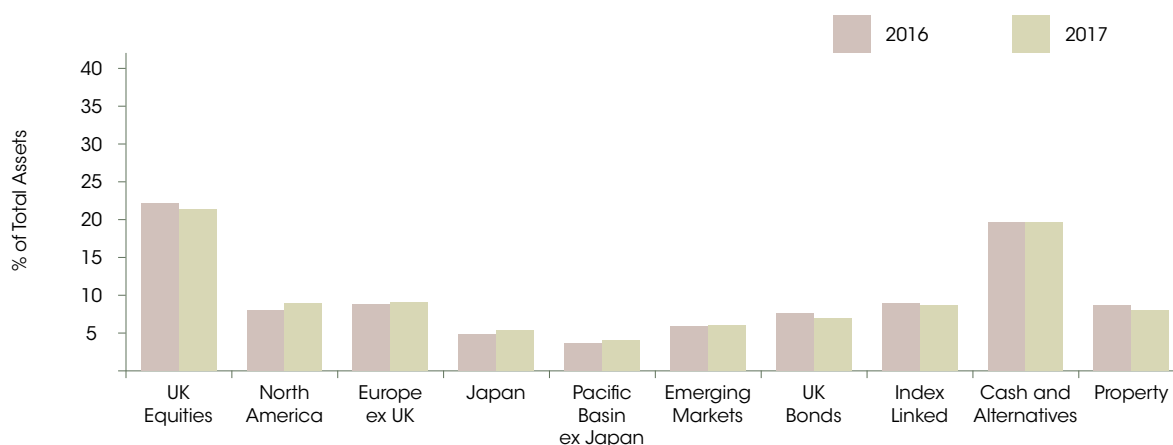
**Figure 1.**  
**Net Total Return by Asset Class for Year Ending 31 March 2017**



The Fund performed largely in line with its individual benchmarks over the period with an outperformance in Japan, UK bonds and property.

Figure 2 shows how the Fund's investments were allocated across its constituent asset classes at the start and the end of the financial year to the end of March 2017.

**Figure 2.**  
**Asset Allocation Change 2016 vs 2017**



### Largest Property Holdings as at 31 March 2017

Property	Market Value £'000
Fort Halstead, Sevenoaks	51,500
Tunsgate Shopping Centre, Guildford	30,000
Tesco Supermarket, Heswall	30,000
The Fort, Birmingham	24,750
Premier Park, Winsford	21,500
Middlemarch Business Park, Coventry	20,500
Farnham Retail Park	19,625
Mitre Bridge Industrial Estate, North Kensington	19,450
Gateway 28, Sutton-in-Ashfield	17,825
132-134 North Street, Brighton	17,250

### Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
<b>UK Equities</b>	<b>23</b>	
<b>Overseas Equities</b>	<b>30</b>	
US		8
European (ex UK)		8
Japan		4
Asia Pacific		4
Emerging Markets		6
<b>Fixed Interest</b>	<b>18</b>	
UK Gilts		4
UK Index Linked Gilts		10
Corporate Bonds		4
<b>Property</b>	<b>8</b>	
<b>Alternatives</b>	<b>21</b>	
Private Equity		5
Hedge Funds		4
Opportunities		5
Infrastructure		7
Cash		0
<b>Total</b>	<b>100</b>	

# Financial Performance

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2016) for the 12 months to 31 March 2017.

<b>2016/2017 or at 31 March 2017</b>	<b>Predicted £'000</b>	<b>Actual £'000</b>
<b>Fund Size 2016</b>	<b>6,849,756</b>	<b>6,849,756</b>
<b>Fund Size 2017</b>	<b>7,209,003</b>	<b>8,178,485</b>
Pensions Paid	(307,828)	(306,902)
Contributions Received	229,025	208,513
Net Transfers	-	(7,724)
<b>Net Cash Flow From Members</b>	<b>(78,803)</b>	<b>(106,113)</b>
<b>Net Management Expenses</b>	<b>(34,584)</b>	<b>(38,315)</b>
Investment Income	149,556	166,729
Change in Valuation of Assets	323,078	1,306,428
<b>Return from Investments</b>	<b>+472,643</b>	<b>+1,473,157</b>
<b>Net Change Overall</b>	<b>+359,247</b>	<b>1,328,729</b>

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 contributions received in 2016/17 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 the following 2 years are 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:

<b>12 months to 31 March 2017</b>	<b>Budget £'000</b>	<b>Actual £'000</b>
Employees	3,326	2,791
Premises	284	284
Transport	53	31
Investment Fees - operating budget	12,611	14,075
Other Supplies and Services	1,784	1,379
Third Party	658	688
Recharges	530	530
<b>Total</b>	<b>19,246</b>	<b>19,778</b>

*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 2016/17 was £19.8 million, higher than the original budget of £19.2 million approved by Pensions Committee in July 2016.

The Fund's major expenditure is on investment management fees. These are mostly charged on ad-valorem basis with, on some occasions, a performance fee. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise substantially. Therefore, when this expenditure rises there is a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2016/17 the out-turn is higher than the estimate made last year due to changes in valuations and improved performance relative to benchmark.

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

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Employees	3,388	3,422	3,456
Premises	280	288	295
Transport	51	52	54
Investment Fees	14,131	15,106	16,148
Other Supplies and Services	1,955	2,008	2,062
Third Party	710	729	749
Recharges	350	350	350
<b>Total</b>	<b>20,865</b>	<b>21,955</b>	<b>23,114</b>

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 on page 27 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:

	2017/18 £'000	2018/19 £'000	2019/20 £'000
<b>Fund Size Start of Year</b>	<b>8,178,485</b>	<b>8,815,511</b>	<b>9,287,607</b>
<b>Fund Size End of Year</b>	<b>8,815,511</b>	<b>9,287,607</b>	<b>9,787,180</b>
Pensions Paid	(315,188)	(323,698)	(332,438)
Contributions Received	428,513	230,575	236,800
Net Transfers	-	-	-
<b>Net Inflow From Members</b>	<b>113,325</b>	<b>(93,123)</b>	<b>(95,638)</b>
<b>Net Management Expenses</b>	<b>(40,614)</b>	<b>(43,051)</b>	<b>(45,634)</b>
Investment Income	178,233	190,531	203,678
Change in Valuation of Assets	386,082	417,739	437,167
<b>Return from Investments</b>	<b>564,315</b>	<b>608,270</b>	<b>640,845</b>
<b>Net Change Overall</b>	<b>637,026</b>	<b>472,096</b>	<b>499,573</b>

The contributions received in 2017/18 are higher due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18). 2018/19 and 2019/20 have been reduced accordingly.

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 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 2017

	Note	2016/17 £'000	2015/16 £'000
<b>Dealing with Members, Employers and Others Directly Involved in the Fund</b>			
Contributions Receivable	7	208,513	223,439
Transfers In	8	11,568	7,162
		<b>220,081</b>	<b>230,601</b>
Benefits Payable	9	(306,902)	(300,320)
Payments to and on Account of Leavers	10	(19,292)	(14,446)
		<b>(326,194)</b>	<b>(314,766)</b>
<b>Net Additions/(Withdrawals) from Dealing with Members</b>		<b>(106,113)</b>	<b>(84,165)</b>
Management Expenses	11	(38,315)	(32,626)
<b>Net Additions/(Withdrawals) including Fund Management Expenses</b>		<b>(144,428)</b>	<b>(116,791)</b>
<b>Return on Investments:</b>			
Investment Income	12	167,672	140,290
Profit and Losses on Disposal of Investments and Changes in Market Value of Investments	13	1,306,428	(36,061)
Taxes on Income	12	(943)	(387)
<b>Net Return on Investments</b>		<b>1,473,157</b>	<b>103,842</b>
Net Increase/(Decrease) in the Fund During the Year		1,328,729	(12,949)
Net Assets of the Fund at the Start of the Year		6,849,756	6,862,705
<b>Net Assets of the Fund at the End of the Year</b>		<b>8,178,485</b>	<b>6,849,756</b>

## Net Assets Statement - for year ended 31 March 2017

	Note	2016/17 £'000	2015/16 £'000
<b>Investment Assets</b>	13		
Equities		2,728,658	2,020,418
Pooled Investment Vehicles		4,804,297	4,264,626
Derivative Contracts		224	254
Direct Property		431,150	377,000
Short Term Cash Deposits		75,222	40,031
Other Investment Balances		117,550	114,660
		<b>8,157,101</b>	<b>6,816,989</b>
<b>Investment Liabilities</b>	18	(4,490)	(4,527)
<b>Total Net Assets</b>		<b>8,152,611</b>	<b>6,812,462</b>
Long Term Assets	19	7,110	9,236
Current Assets	20	34,358	39,270
Current Liabilities	20	(15,594)	(11,212)
<b>Net Assets of the Fund as at 31 March 2017</b>		<b>8,178,485</b>	<b>6,849,756</b>

# 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 2016/17 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.

In 2015/16 a local Pension Board was 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 2016/17 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 2016.

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of Merseyside's 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 182 employer organisations within Merseyside Pension Fund including Wirral Council itself as detailed below:

	31/3/17	31/3/16
Number of Employers with Active Members	182	170
Number of Employees in Scheme	47,206	46,221
Number of Pensioners	42,194	41,136
Number of Dependants	6,571	6,588
Number of Deferred Pensioners	38,368	37,136
<b>Total</b>	<b>134,339</b>	<b>131,081</b>

### 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.

**d. Benefits**

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

	Service pre-1 April 2008	Service post-31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump Sum</b>	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. 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 at: [mpfmembers.org.uk](http://mpfmembers.org.uk)

**2. Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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. Summary of Significant 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 analysed into three categories, administration costs, investment management costs and oversight and governance costs, in accordance with CIPFA 'Accounting for Local Government Management Costs'.

#### Administration Costs

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

#### Investment Management Costs

All investment expenses are accounted for on an accrual 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 does 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 Costs

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 2017 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 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, 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 2017 was £4,246 million (£3,805 million at 31 March 2016).

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.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible, management uses the best available data.

## 6. Events After the Reporting Date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

## 7. Contributions Receivable

	2016/17 £'000	2015/16 £'000
<b>Employers</b>		
Normal	111,926	110,735
Pension Strain	11,808	13,492
Deficit Funding	31,541	45,843
<b>Total Employers</b>	<b>155,275</b>	<b>170,070</b>
<b>Employees</b>		
Normal	53,238	53,369
	<b>208,513</b>	<b>223,439</b>
Relating to:		
Administering Authority	35,305	36,338
Statutory Bodies	145,159	139,618
Admission Bodies	28,049	47,483
	<b>208,513</b>	<b>223,439</b>

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 2017. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2016/17 contributions on page 35 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 2016/17 no such charges were levied.

## 8. Transfers In

	2016/17 £'000	2015/16 £'000
Group Transfers	-	-
Individual Transfers	11,568	7,162
	<b>11,568</b>	<b>7,162</b>

There were no group transfers to the Fund during 2016/17.

## 9. Benefits Payable

	2016/17 £'000	2015/16 £'000
Pensions	247,865	243,390
Lump Sum Retiring Allowances	52,632	51,958
Lump Sum Death Benefits	6,405	4,972
	<b>306,902</b>	<b>300,320</b>
Relating to:		
Administering Authority	41,873	42,817
Statutory Bodies	217,741	210,017
Admission Bodies	47,288	47,486
	<b>306,902</b>	<b>300,320</b>

## 10. Payments to and on Account of Leavers

	2016/17 £'000	2015/16 £'000
Refunds to Members Leaving Service	465	429
Payment for Members Joining State Scheme	289	222
Income for Members From State Scheme	(32)	(14)
Group Transfers to Other Schemes	1,226	1,411
Individual Transfers to Other Schemes	17,344	12,398
	<b>19,292</b>	<b>14,446</b>

There was one group transfer out of the Fund during 2016/17.



## 11. Management Expenses

	2016/17 £'000	2015/16 £'000
Administration Costs	2,673	2,421
Investment Management Costs	33,887	28,697
Oversight and Governance Costs	1,978	1,838
Other Income	(223)	(330)
	<b>38,315</b>	<b>32,626</b>

## 11c. Oversight and Governance Costs

	2016/17 £'000	2015/16 £'000
Employee Costs	468	449
External Services	838	733
Internal Audit	32	30
External Audit	37	40
Other Costs	603	586
	<b>1,978</b>	<b>1,838</b>

### 11a. Administration Costs

	2016/17 £'000	2015/16 £'000
Employee Costs	1,686	1,643
IT Costs	639	404
General Costs	329	320
Other Costs	19	54
	<b>2,673</b>	<b>2,421</b>

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 2016/17 is £173,224 relating to recharged Actuarial fees (2015/16 £317,434).

External Audit fees for 2015/16 also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

### 11b. Investment Management Costs

	2016/17 £'000	2015/16 £'000
External Investment Management Fees	20,607	15,850
External Investment Management Performance Fees	3,076	3,111
External Services	545	640
Internal Investment Management Fees	609	483
Property Related Expenses	4,889	5,093
Transaction Costs	4,161	3,520
	<b>33,887</b>	<b>28,697</b>

## 12. Investment Income

	2016/17 £'000	2015/16 £'000
Dividends from Equities	69,880	58,649
Income from Pooled Investment Vehicles	49,885	37,075
Rents from Properties	23,498	23,502
Interest on Short Term Cash Deposits	306	421
Income from Private Equity	22,856	19,385
Income from Derivatives	-	171
Other	1,247	1,087
	<b>167,672</b>	<b>140,290</b>
Irrecoverable Withholding Tax	(943)	(387)
	<b>166,729</b>	<b>139,903</b>



Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £4.1 million (2015/16 £4.1 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. There were no repayments received in 2016/17 (2015/16 £75,522).

## 12a. Property Income

	2016/17 £'000	2015/16 £'000
Rental Income	23,498	23,502
Direct Operating Expenses	(4,889)	(5,093)
<b>Net Rent from Properties</b>	<b>18,609</b>	<b>18,409</b>

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:

Age Profile of Lease Income	2016/17 £'000	2015/16 £'000
No later than one year	1,277	1,152
Between one and five years	6,774	8,335
Later than five years	13,834	10,187
<b>Total</b>	<b>21,885</b>	<b>19,674</b>

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

<b>2016/17</b>	<b>Market Value 31/3/16 £'000</b>	<b>Purchases at Cost and Derivative Payments £'000</b>	<b>Sale Proceeds and Derivative Receipts £'000</b>	<b>Change in Market Value* £'000</b>	<b>Market Value 31/3/17 £'000</b>
Equities	2,020,418	1,232,039	(1,016,978)	493,179	2,728,658
Pooled Investment Vehicles	4,264,626	323,279	(608,771)	825,163	4,804,297
Derivative Contracts	254	279,162	(272,286)	(6,906)	224
Direct Property	377,000	79,885	(18,638)	(7,097)	431,150
	<b>6,662,298</b>	<b>1,914,365</b>	<b>(1,916,673)</b>	<b>1,304,339</b>	<b>7,964,329</b>
Short-Term Cash Deposits	40,031				75,222
Other Investment Balances	114,660			2,089	117,550
	<b>6,816,989</b>			<b>1,306,428</b>	<b>8,157,101</b>

<b>2015/16</b>	<b>Market Value 31/3/15 £'000</b>	<b>Purchases at Cost and Derivative Payments £'000</b>	<b>Sale Proceeds and Derivative Receipts £'000</b>	<b>Change in Market Value* £'000</b>	<b>Market Value 31/3/16 £'000</b>
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
	<b>6,713,409</b>	<b>1,949,797</b>	<b>(1,964,480)</b>	<b>(36,428)</b>	<b>6,662,298</b>
Short-Term Cash Deposits	47,098			(326)	40,031
Other Investment Balances	92,169			693	114,660
	<b>6,852,676</b>			<b>(36,061)</b>	<b>6,816,989</b>

\* 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 management costs in note 11b 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

	2016/17 £'000	2015/16 £'000
<b>Equities (Segregated Holdings)</b>		
UK Quoted	1,193,697	865,482
Overseas Quoted	1,534,961	1,154,936
	<b>2,728,658</b>	<b>2,020,418</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds:</b>		
Property	17,569	8,180
Equities	107,630	249,694
Private Equity	294,048	246,283
Hedge Funds	53,491	51,440
Corporate Bonds	267,082	242,219
Infrastructure	159,687	118,184
Opportunities	301,012	269,768
<b>Overseas Managed Funds:</b>		
Equities	456,946	365,890
Private Equity	251,013	209,515
Hedge Funds	218,664	180,803
Corporate Bonds	-	
Infrastructure	163,601	136,449
Opportunities	131,052	104,647
<b>UK Unit Trusts:</b>		
Property	99,026	96,506
<b>Overseas Unit Trusts:</b>		
Property	87,157	94,901
<b>Other Unitised Funds</b>	2,196,319	1,890,147
	<b>4,804,297</b>	<b>4,264,626</b>
<b>Derivative Contracts</b>	<b>224</b>	<b>254</b>
<b>UK Properties</b>		
Freehold	322,800	338,200
Leasehold	108,350	38,800
	<b>431,150</b>	<b>377,000</b>
Balance at 1 April	377,000	382,210
Additions	79,885	30,332
Disposals	(18,638)	(42,916)
Net Gain/Loss on Fair Value	(11,945)	10,629
Transfers In/Out	-	-
Other Changes in Fair Value	4,848	(3,355)
<b>Balance at 31 March</b>	<b>431,150</b>	<b>377,000</b>

As at 31 March 2017 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 2017 the Fund had committed to a redevelopment project of an existing retail centre at Guildford, approved expenditure for the redevelopment is £20 million.

	2016/17 £'000	2015/16 £'000
<b>Short-Term Cash Deposits</b>		
Sterling	75,222	38,946
Foreign Currency	-	1,085
	<b>75,222</b>	<b>40,031</b>

During 2016/17 the foreign currency deposit (an ISK deposit held in an escrow account following the distribution by the Glitnir Winding Up Board) was sold at a Central Bank of Iceland auction. The ISK deposit was sold at auction, as 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.

	2016/17 £'000	2015/16 £'000
<b>Other Investment Balances</b>		
Outstanding Trades	4,509	22,765
Outstanding Dividend Entitlements and Recoverable Withholding Tax	17,304	13,373
Cash Deposits	95,737	78,522
	<b>117,500</b>	<b>114,660</b>

### 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 held is EUR 155,397. DJ Euro STOXX 50 have a contract multiplier of x10 therefore the notional value underlying the futures contracts is £0.50 million.

#### Futures

Type	Expires	Economic Exposure £'000	Market Value 31/3/17 £'000	Economic Exposure £'000	Market Value 31/3/16 £'000
<b>Assets</b>					
EURO STOXX 50 Index Futures	Jun-17	500	50		
EURO STOXX 50 Index Futures	Jun-16			(810)	(81)
<b>Total Assets</b>			<b>50</b>		<b>-</b>
<b>Liabilities</b>					
			-		-
<b>Total Liabilities</b>			<b>-</b>		<b>(81)</b>
<b>Net Futures</b>			<b>50</b>		<b>(81)</b>

#### 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 7,124	EUR 8,248	63	
Up to 1 month	GBP 145,603	EUR 170,112		(13)
Up to 3 months	GBP 227	AUD 370	2	
Up to 6 months	GBP 54,716	JPY 7,600,000	109	
<b>Net Forward Currency Contracts at 31 March 2017</b>			<b>174</b>	<b>(13)</b>
<b>Net Forward Currency Contracts at 31 March 2017</b>				<b>161</b>
Prior Year Comparative				
Open Forward Currency Contracts at 31 March 2016			254	(23)
Net Forward Currency Contracts at 31 March 2016				<b>231</b>

### 13c. Summary of Managers' Portfolio Values at 31 March 2017

	2016/17		2015/16	
	£'m	%	£'m	%
<b>Externally Managed</b>				
JP Morgan (European Equities)	258	3.2	213	3.1
Nomura (Japan)	433	5.3	311	4.6
Schroders (Fixed Income)	267	3.3	242	3.6
Legal & General (Fixed Income)	298	3.7	277	4.1
Unigestion (European Equities and Pooled Emerging Markets)	318	3.9	266	3.9
M&G (UK Equities)	-	-	150	2.2
M&G (Global Emerging Markets)	177	2.2	127	1.9
TT International (UK Equities)	237	2.9	204	3.0
Blackrock (UK Equities)	249	3.1	212	3.1
Blackrock (Pacific Rim)	157	1.9	118	1.7
Blackrock (QIF)	70	0.9	71	1.0
Newton (UK Equities)	260	3.2	235	3.4
Amundi (Global Emerging Markets)	168	2.1	125	1.8
Maple-Brown Abbot (Pacific Rim Equities)	173	2.1	122	1.8
State Street Global Advisor (Passive Manager)	1,900	23.0	1,614	23.8
State Street (Transition Manager)	194	2.4	-	-
	<b>5,159</b>	<b>63.2</b>	<b>4,287</b>	<b>63.0</b>
<b>Internally Managed</b>				
UK Equities	404	4.9	322	4.7
European Equities	238	2.9	179	2.6
Property (Direct)	431	5.3	377	5.5
Property (Indirect)	226	2.8	214	3.1
Private Equity	545	6.7	456	6.7
Hedge Funds	272	3.3	232	3.4
Infrastructure	323	4.0	255	3.7
Opportunities	462	5.7	394	5.8
Global Emerging Markets	-	-	25	0.4
Short-Term Deposits and Other Investments	97	1.2	76	1.1
	<b>2,998</b>	<b>36.8</b>	<b>2,530</b>	<b>37.0</b>
	<b>8,157</b>	<b>100.0</b>	<b>6,817</b>	<b>100.0</b>

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

	2016/17		2015/16	
	£'m	%	£'m	%
SSGA Pooled UK Index-Linked Gilts	708	8.7	603	8.8
SSGA USA Equity Tracker	729	8.9	548	8.0
SSGA Pooled UK Equities	391	4.8	381	5.6

### 13d. Stock Lending

As at 31 March 2017, £258.7 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £280.0 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £871,204 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 'Investment Strategy Statement'.

## 14. Fair Value Hierarchy

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Assets 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

Assets 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

Assets 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 investments 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.

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 following tables provide 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.

#### Values at 31 March 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,718,069	2,344,073	1,471,037	7,533,179
Non-Financial Assets at Fair Value through Profit and Loss			431,150	431,150
<b>Total Financial Assets</b>	<b>3,718,069</b>	<b>2,344,073</b>	<b>1,902,187</b>	<b>7,964,329</b>

#### Values at 31 March 2016\*

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,857,484	2,177,208	1,250,606	6,285,298
Non-Financial Assets at Fair Value through Profit and Loss			377,000	377,000
<b>Total Financial Assets</b>	<b>2,857,484</b>	<b>2,177,208</b>	<b>1,627,606</b>	<b>6,662,298</b>

\* Following a management review of levels 1, 2 and 3 against PRAG guidance the values at 31 March 2016 have been restated, £2,135,272 has moved from level 1 to level 2 and £22,023 has moved from level 3 to level 2.

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

	<b>2016/17</b>	<b>2015/16*</b>
	<b>£'000</b>	<b>£'000</b>
Opening Balance	1,627,606	1,100,238
Acquisitions	260,038	249,637
Disposal Proceeds	(133,498)	(181,301)
Transfer into Level 3		377,000
Total Gains/(Losses) Included in the Fund Account:		
On Assets Sold	(11,071)	14,069
On Assets Held at Year End	159,112	67,963
<b>Closing Balance</b>	<b>1,902,187</b>	<b>1,627,606</b>

\* The information for 2015/16 has been restated from the audited 2015/16 accounts to include investments in directly held property as a result of changes to the Code.

## 15. Financial Instruments

### 15a. 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 2017	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>Financial Assets</b>			
Equities			2,728,658
Pooled Investment Vehicles			4,804,297
Derivatives			224
Cash Deposits	75,222		
Other Investment Balances	117,550		
Long-Term and Current Assets	41,468		
<b>Total Financial Assets</b>	<b>234,240</b>	<b>-</b>	<b>7,533,179</b>
<b>Financial Liabilities</b>			
Other Investment Balances		4,490	
Current Liabilities		15,594	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>20,084</b>	<b>-</b>
<b>Net</b>	<b>234,240</b>	<b>20,084</b>	<b>7,533,179</b>

31 March 2016	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>Financial Assets</b>			
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		
<b>Total Financial Assets</b>	<b>203,197</b>	<b>-</b>	<b>6,285,298</b>
<b>Financial Liabilities</b>			
Other Investment Balances		4,527	
Current Liabilities		11,212	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>15,739</b>	<b>-</b>
<b>Net</b>	<b>203,197</b>	<b>15,739</b>	<b>6,285,298</b>

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.



## 15b. Net Gains and Losses on Financial Instruments

	2016/17 £'000	2015/16 £'000
<b>Financial Assets</b>		
Fair Value Through Profit and Loss	1,311,436	(43,802)
Loans and Receivables	-	(326)
<b>Financial Liabilities</b>		
Financial Liabilities at Amortised Cost	2,089	693
Loans and Receivables		
<b>Total</b>	<b>1,313,525</b>	<b>(43,435)</b>

## 15c. 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.

## 16. 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.

## 16a. 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.

31 March 2017	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including Pooled Vehicles)	1,692	19.0	2,013	1,370
US Equities	787	21.0	952	622
European Equities	790	22.5	968	612
Japan Equities	438	20.5	527	348
Emerging Markets Equities including Pacific Rim	812	31.0	1,064	561
UK Fixed Income Pooled Vehicles	566	11.0	628	503
UK Index-Linked Pooled Vehicles	708	9.0	772	644
Pooled Property	204	12.5	229	178
Private Equity	545	27.5	695	395
Hedge Funds	272	9.0	297	248
Infrastructure	323	18.5	383	263
Other Alternative Assets	396	14.2	452	340
Short-Term Deposits and Other Investment Balances	214	0.0	214	214
<b>Total</b>	<b>7,747</b>			

31 March 2016	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including 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 Pacific 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
<b>Total</b>	<b>6,473</b>			

## 16b. 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 16a 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 2017 was £75.2 million (31 March 2016 £40.0 million). This was held in instant access accounts with the following institutions:

	Rating S&P	Balances as at 31 March 2017 £'000	Balances as at 31 March 2016 £'000
Lloyds Bank	Long A Short A-1	40,222	38,945
Invesco	AAA	20,000	
Svenska Handelsbanken	Long AA- Short A-1+	15,000	
Northern Trust	Long AA- Short A-1+	-	1
Iceland Escrow Account			1,085
<b>Total</b>		<b>75,222</b>	<b>40,031</b>

## 16c. Liquidity Risk

The Fund's key priority is to pay pensions in the long-term and in the 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 £75.2 million. The Fund also has £6,091 million in assets which could be realised in under 7 days' notice, £822 million in assets which could be realised in under 90 days' notice and £791 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 2016/17 in its dealing with members of £106 million and management expenses of £38 million, this is offset by investment income of £167 million.

## 16d. Outlook for Real Investment Returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on 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% per 1% change in real investment returns. 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.

## 17. 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 2016. The next valuation will take place as at 31 March 2019.

The most recent Triennial Valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). 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 19 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:

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

### Summary of Key whole Fund assumptions used for calculating funding target

	31 March 2016 % p.a.
<b>Long-Term Yields</b>	
Market Implied RPI Inflation	3.20
<b>Solvency Funding Target Financial Assumptions</b>	
Investment Return	4.20
CPI Price Inflation	2.20
Salary Increases	3.70
Pension Increases	2.20
<b>Future Service Accrual Financial Assumptions</b>	
Investment Return/Discount Rate	4.95
CPI Price Inflation	2.20
Salary Increases	3.70
CARE	2.20

## 18. Investment Liabilities

	2016/17 £'000	2015/16 £'000
Derivative Contracts	13	104
Amounts Due to Stockbrokers	4,477	4,423
	<b>4,490</b>	<b>4,527</b>

## 19. Long-Term Assets

	2016/17 £'000	2015/16 £'000
Assets Due in more than One Year	7,110	9,236
	<b>7,110</b>	<b>9,236</b>
Relating to:		
Central Government Bodies	1,845	2,767
Other Local Authorities	4,717	5,548
Public Corporations and Trading Funds	280	441
Bodies External to General Government	268	480
	<b>7,110</b>	<b>9,236</b>

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 2018/19 onwards.

## 20. Current Assets and Liabilities

	2016/17 £'000	2015/16 £'000
<b>Assets</b>		
Contributions Due	19,273	20,636
Amounts Due from External Managers	144	921
Accrued and Outstanding Investment Income	664	367
Sundries	12,749	15,889
Provision for Bad Debts	(167)	(166)
Cash at Bank	1,695	1,623
	<b>34,358</b>	<b>39,270</b>
Relating To:		
Central Government Bodies	1,863	1,856
Other Local Authorities	13,828	14,761
NHS	1	2
Public Corporations and Trading Funds	73	170
Bodies External to General Government	18,593	22,481
	<b>34,358</b>	<b>39,270</b>
<b>Liabilities</b>		
Transfer Values Payable	1,226	-
Retirement Grants Due	1,944	2,372
Provisions	294	247
Miscellaneous	12,130	8,593
	<b>15,594</b>	<b>11,212</b>
Relating To:		
Central Government Bodies	3,895	2,570
Other Local Authorities	1,881	1,920
Public Corporations and Trading Funds	2	171
Bodies External to General Government	9,816	6,551
	<b>15,594</b>	<b>11,212</b>
<b>Total Current Assets and Liabilities</b>	<b>18,764</b>	<b>28,058</b>

'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 2017.

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.

## 21. Contractual Commitments

Commitments for investments amounted to £606.12 million as at 31 March 2017 (2015/16 £325.41 million). These commitments relate to Private Equity £190.40 million, Infrastructure £212.59 million, Opportunities £38.27 million, Indirect Property £164.87 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.

## 23. 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 £3.6 million. (2015/16 £3.3 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 £11.9 million (2015/16 £16.0 million) and a creditor of £293,110 as at 31 March 2017 (2015/16 £259,834).

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 2017, payroll are included within the debtors figure in note 20.

A specific declaration has been received from Pension 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 four investment bodies in which the Fund has an interest, Eclipse (£10.6 million), Standard Life (£18.1 million), F&C (£25.7 million) and GLIL (£24.5 million).

Linda Desforges, Investment Manager acts in an un-remunerated board advisory capacity on three investment bodies in which the Fund has an interest, Standard Life (£18.1 million), BBH Capital (£27 million) and F&C (£25.7 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 (£8.7 million), by whom travel expenses and accommodation were paid. Susannah Friar during 2016/17 has also been appointed on a further three bodies in an un-remunerated board advisory capacity, although has not attended any meetings (Century Bridge China Real Estate 2, Phoenix Asia Secured Debt Fund LP and Bridges Property Alternatives Fund IV Unit Trust).

Adil Manzoor Investment Officer acts in an un-remunerated board advisory capacity on two investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£4.5 million) and Impax New Energy Investors III LP.

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

#### Key Management Personnel

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

Financial Year 2016/17	Employment Period	Salary £	Pension Contributions £	Total Including Pension Contributions £
Director of Pensions	01/04/16 - 31/03/17	104,479	13,992	<b>118,471</b>
Senior Investment Manager	01/04/16 - 31/03/17	57,440	7,705	<b>65,145</b>

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

## 24. Additional Voluntary Contribution Investments

	2016/17 £'000	2015/16 £'000
<b>The Aggregate Amount of AVC Investments is as follows:</b>		
Equitable Life	2,089	2,158
Standard Life	6,139	6,064
Prudential	6,331	5,525
	<b>14,559</b>	<b>13,747</b>
<b>Changes During the Year were as follows:</b>		
Contributions	2,473	2,026
Repayments	2,964	2,241
Change in Market Values	1,303	44



# Statement of Responsibilities

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## 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 2017.

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 presents fairly the financial position of the Fund at 31 March 2017, and its income and expenditure for the year then ended.



**Tom Sault**  
Section 151 Officer  
September 2017

# Audit Report

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Independent auditor's report to the members of Wirral Council on the consistency of the Merseyside Pension Fund financial statements included in the Merseyside Pension Fund annual report.

## Opinion

The Merseyside Pension Fund financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Merseyside Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the 'Statement of Accounts').

In our opinion, the accompanying Merseyside Pension Fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## Pension Fund Annual Report - Pension Fund Financial Statements

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 and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## Who we are Reporting To

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.

## The Audited Financial Statements and our Report Thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated September 2017.

## Chief Financial 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 of the Authority (in Wirral Council this is the Section 151 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 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 2016/17.

## Auditor's Responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

## Grant Patterson

For and on behalf of Grant Thornton UK LLP,  
Appointed Auditor  
Royal Liver Building  
Liverpool  
L3 1PS

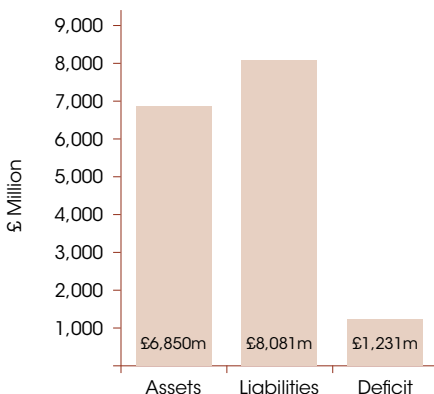
# Consulting Actuary's Statement

## Accounts for the Year Ended 31 March 2017 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 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,850 million represented 85% of the Fund's past service liabilities of £8,081 million (the 'Funding Target') at the valuation date. The deficit at the valuation was therefore £1,231 million.



The valuation also showed that a Primary contribution rate of 15.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve, and then maintain, a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation, the average deficit recovery period is 19 years, and the total initial recovery payment (the 'Secondary rate') for 2017/18 is approximately £129 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their deficit contributions early (after suitably agreed reductions), with either all three years being paid in April 2017, or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 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 Primary rate of contribution were as follows:

	<b>For past Service Liabilities (Funding target) per annum</b>	<b>For future Service Liabilities (Primary rate of contribution)</b>
Rate of return on investments (discount rate)	4.2%	4.95%
Rate of pay increases (long term) *	3.7%	3.7%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2%	2.2%

\* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

### **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 2017 (the 31 March 2016 assumptions are included for comparison):

	<b>31 March 2016 per annum</b>	<b>31 March 2017 per annum</b>
Rate of return on investments (discount rate)	3.6%	2.5%
Rate of pay increases *	3.5%	3.8%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0%	2.3%

\* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £9,292 million. Interest over the year increased the liabilities by c£333 million, though allowing for net benefits accrued/paid over the period then decreased them by c£65 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,858 million made up of 'actuarial losses' (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £11,418 million.



**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**June 2017**





# Appendix A

Scheme employers with active members as at 31 March 2017

## Scheduled Bodies (37)

Billinge Chapel End Parish Council  
 Birkenhead 6th Form College  
 Carmel College  
 Chief Constable  
 Cronton Parish Council  
 Eccleston 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 City Region Combined Authority (LCRCA)  
 Liverpool John Moores University  
 Liverpool Streetscene Services Ltd  
 Maghull Town Council  
 Merseyside Fire & Rescue Authority  
 Merseyside Passenger Transport Executive  
 Merseyside Waste Disposal Authority  
 Office of the Police and Crime Commissioner  
 Prescott 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 Ltd  
 The City of Liverpool College  
 Whiston Town Council  
 Wirral Council  
 Wirral Evolutions Ltd  
 Wirral Metropolitan College

## Scheduled Bodies (Academies) (64)

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 Learning Village Multi Academy Trust  
 Rainhill St Anns CE Primary School (Academy)  
 Range High School  
 St Anselm's College  
 St Edward's 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 Mary's Catholic College  
 St Michael's C of E High School (Academy)  
 St Silas C of E Primary School (Academy)  
 Studio @ Deyes Academy  
 Sylvester Primary Academy  
 The Belvedere Academy  
 The Birkenhead Park School  
 The Kingsway Academy  
 The Prescott School (Academy)  
 The Studio (Academy)  
 The Sutton Academy  
 Townfield Primary  
 Upton Hall School  
 Weatherhead High School  
 West Derby School (Academy)  
 West Kirby Grammar School  
 Wirral Grammar School for Girls  
 Wirral Grammar Boys (Academy)  
 Woodchurch High School

**Admission Bodies  
(Community) (33)**

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  
 Vauxhall Neighbourhood  
 Council  
 Village Housing Association Ltd  
 Wavertree Citizens Advice  
 Bureau  
 Welsh Local Government  
 Association  
 Wirral Autistic Society  
 Wirral Partnership Homes Ltd

**Admission Bodies  
(Transfer) (48)**

Agilisys Limited  
 Amey Services Ltd - Highways  
 arvato Public Sector  
 Services Ltd  
 Balfour Beatty PFI SEN School  
 Balfour Beatty Workplace Ltd  
 BAM Nuttall Limited  
 Birkenhead Market Services Ltd  
 Bouygues E & S Fm Uk Ltd  
 Castlerock Recruitment  
 Group Ltd  
 Change Grow Live  
 City Healthcare Partnership CIC  
 Compass (Scolarest) Liverpool  
 Schools  
 Compass (Scolarest) Wirral  
 Schools  
 Compass Contract Services  
 (UK) Ltd  
 Elite Cleaning and  
 Environmental Services Ltd  
 Friends of Birkenhead Council  
 Kennels  
 Geraud Markets Liverpool Ltd  
 Glendale  
 (Liverpool Parks Services) Ltd  
 Graysons Education Limited  
 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  
 Liverpool Vision Ltd  
 Mack Trading  
 Mellors Catering - Birkdale  
 Mellors Catering - St Anns  
 Mellors Catering - St Mary &  
 St Thomas

Mellors - St Paul & St Timothy  
 Mosscroft Childcare Ltd  
 Sanctuary Home Care Ltd  
 Sefton New Directions Ltd  
 Shap Ltd  
 Southern Electric Contracting  
 Ltd  
 Tarmac Trading Ltd  
 Taylor Shaw (Grange)  
 Taylor Shaw (Great Meols)  
 Taylor Shaw (Raeburn)  
 Taylor Shaw (Range)  
 Taylor Shaw (St Andrews)  
 Taylor Shaw (St Paul's)  
 The Riverside Group - Geneva  
 Rd Centre  
 Veolia ES Merseyside & Halton  
 Volair Ltd  
 WIRED



# Appendix B

## Pensions Committee Items

### 4 July 2016 (Special)

LGPS Update  
 Pension Fund Budget 2016/17  
 Budget Out-turn 2015/16  
 Annual Report 2015/16  
 Treasury Management Annual Report 2015/16  
 Investment Performance  
 LGC Investment Summit  
 PLSA Annual Conference  
 LAPFF Conference  
 Pension Board Minutes 14/04/2016  
 Local Investment Update  
 Pooling Update  
 IMWP Minutes 19/4 and 9/6/16

### 19 September 2016

Audit Findings Report  
 Pension Fund Statement of Accounts  
 Draft Annual Pension Fund Report 2015/16  
 Pension Board Review  
 LGPS Update  
 GAD - Section 13 Dry Run  
 Pooling Consultation  
 LGE Fundamentals Training  
 Annual Employers' Conference  
 Pension Board Minutes 28/06/2016  
 Infrastructure  
 Non-Recovery of Pension Overpayments  
 GRWP Minutes 30/06/2016

### 15 November 2016 (Special)

LGPS Update  
 Pooling Update  
 Investment Strategy Statement Guidance  
 Draft Funding Strategy Statement  
 Authorised Signatories  
 Infrastructure  
 Pension Board Minutes 11/10/16  
 Property Portfolio Rent Arrears and Write-offs  
 Property Insurance Tender  
 IMWP Minutes 22/09/16 and 18/10/16

### 23 January 2017

LGPS Update  
 Pooling Update  
 Pension Fund Budget  
 MIFID Consultation  
 Procurement of Pensions Administration System  
 Member Development Programme  
 Treasury Management Strategy  
 LGC Investment Seminar  
 IMWP Minutes 24/11/2016

### 21 March 2017

Audit Plan 2016-17  
 LGPS Update  
 Pooling Update  
 Actuarial Valuation  
 Funding Strategy Statement  
 Investment Strategy Statement  
 LGPC Conference  
 PLSA LA Conference  
 Gifts and Hospitality Declarations  
 Compliance Manual  
 IMWP Minutes 09/02/17  
 GRWP Minutes 07/02/17

## Attendance Record 2016 - 2017

	PENSIONS COMMITTEE					GRWP		IMWP					
	4 JUL	19 SEP	15 NOV	23 JAN	21 MAR	30 JUN	7 FEB	19 APR	9 JUN	22 SEP	18 OCT	24 NOV	9 FEB
Cllr Paul Doughty (Chair)	•	•	•	•	•		•	•	•	•		•	•
Cllr Ann McLachlan (Vice-Chair)		•	•	•	•		•			•			
Cllr George Davies	•	•	•	•	•		•		•			•	
Cllr Adrian Jones	•	•		•	#		•		•	•		•	•
Cllr Brian Kenny	#	•	#	•	•	•	•		•	•	•	•	•
Cllr Geoffrey Watt (Spokesperson)	•	•	•	•	•	•	•	•	•	•	•	•	•
Cllr Cherry Povall, JP	#	•	•	•	•				•		•		
Cllr Pat Cleary	•	•	•	•	•				•	•		•	•
Cllr Tom Anderson	•	•		#	#								
Cllr Tony Jones	•	•	•	•	•								•
Cllr Terry Byron (Knowsley Council)*													•
Cllr Nick Crofts (Liverpool City Council)*			•										
Cllr John Fulham (St. Helens Council)*			•										
Cllr Paulette Lappin (Sefton Council)*			•			•	•	•	•	•			
Patrick Cleary (UNISON)*	•			•		•	•	•			•		
Brian Ellis (UNISON)*	•										•		

# Deputy Attended      \* Co-Optee

## Conferences

	NAPF Gloucester	LGC Newport	PLSA ANNUAL CONFERENCE Liverpool	ANNUAL EMPLOYERS' CONFERENCE Aintree	LAPFF ANNUAL CONFERENCE Bournemouth	LGC Carden Park	FUNDAMENTAL TRAINING DAYS
	16 - 17 MAY	7 - 9 SEP	19 - 21 OCT	29 NOV	7 - 9 DEC	MAR	OCT/NOV/DEC
Cllr Paul Doughty (Chair)#	•	•	•	•	•	•	•
Cllr Ann McLachlan (Vice-Chair)				•			
Cllr George Davies				•			
Cllr Adrian Jones						•	
Cllr Brian Kenny			•	•		•	•
Cllr Geoffrey Watt (Spokesperson)		•	•	•	•		
Cllr Cherry Povall, JP		•	•				
Cllr Pat Cleary							
Cllr Tom Anderson		•					
Cllr Tony Jones						•	•
Cllr Terry Byron (Knowsley Council)*							
Cllr Nick Crofts (Liverpool City Council)*							
Cllr John Fulham (St. Helens Council)*			•				
Cllr Paulette Lappin (Sefton Council)*							
Patrick Cleary (UNISON)*							
Brian Ellis (UNISON)*							

# In addition, the Chair attended LAPFF executive board meetings

\* Co-Optee

# Appendix C

## Information Contacts

### Position

Director of Pensions  
Principal Pension Officer

### Name

Peter Wallach  
Yvonne Caddock

### Telephone number

0151 242 1390  
0151 242 1390

### Area

Accounts  
Investments  
Member Services  
Benefits/Payroll  
Operations (IT/Communications)

### Name

Donna Smith  
Leyland Otter  
Sue Roberts  
Barbara King/Keith Higgins  
Guy Hayton

### Telephone number

0151 242 1390  
0151 242 1390  
0151 242 1390  
0151 242 1390  
0151 242 1390

### Resolution of Disputes

Employer Decisions  
Fund Decisions

Principal Pension Officer  
Section 151 Officer

0151 242 1390  
0151 666 3407

### Scheme Employers Contacts

Arriva North West  
Knowsley MBC  
Liverpool City Council  
Liverpool John Moores University  
Merseyside Fire & Rescue Service  
Merseytravel (MPTE)  
Merseyside Waste Disposal Authority  
Office of the Police and Crime Commissioner  
for Merseyside (OPCCM)  
Sefton MBC  
St. Helens MBC  
Wirral Council

Tina Edwards  
Jaci Dick  
Richard Arnold  
Jayne Brown  
Julie Murdoch  
Lynne Gogerty  
Paula Pocock  
Karen Blake  
Lynn Abbott  
Cathy O'Connor  
Jann Lindoe

0151 522 2807  
0151 443 5161  
0151 233 0375  
0151 231 8756  
0151 296 4245  
0151 330 1213  
0151 255 2539  
0151 777 8189  
0151 934 4126  
0174 467 6627  
0151 691 8529



## **Report & Accounts 2016/17**

### **Merseyside Pension Fund**

Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Tel: 0151 242 1390

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council



PO Box 290,  
Brighton Street,  
Wallasey,  
Wirral.  
CH27 9FQ

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

date 25 September 2017

Dear Sirs

**Merseyside Pension Fund**  
**Financial Statements for the year ended 31 March 2017**

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 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017, 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 International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and applicable law.

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 error and 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 disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these 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.

## Information Provided

- 15 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.
- 16 We have communicated to you all deficiencies in internal control of which management is aware.
- 17 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.
- 18 All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 19 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.
- 20 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.
- 21 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.
- 22 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.
- 23 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- 24 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.
- 25 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 17 July 2017 and by the Audit and Risk Management Committee at its meeting on 25 September 2017.

Yours faithfully

Signed .....  
 Name...Tom Sault.....  
 Position.....Section 151 Officer.....  
 Date.....25 September 2017.....

Signed .....  
Name.....  
Position.....Chair of Audit and Risk Management Committee.....  
Date.....25 September 2017 .....

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



## WIRRAL COUNCIL

### PENSION BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 The LGPS update report(s) along with the Fund's responses to the government consultations detailed within the report(s) and discussed at Pension Committee(s) since the last Local Pension Board meeting are attached as appendices to the 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 Not relevant for this report.

#### **5.0 CONSULTATION**

- 5.1 Not relevant for this report.

#### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 None associated with the subject matter.

#### **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

7.1 There are none arising from this report

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

8.1 There are none arising directly from this report

## **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 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 up to date with legislative developments as part of their role in supporting the administering authority.

<b>REPORT</b>	Yvonne Caddock	Principal Pension Officer
<b>AUTHOR</b>	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 Board agenda.	



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# **WIRRAL COUNCIL**

## **PENSION COMMITTEE**

**17 JULY 2017**

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

### **1.0 EXECUTIVE SUMMARY**

- 1.1 This report updates Members on the current position concerning potential amendments to the Local Government Pension Scheme and overriding pension policy that could affect scheme administration.

A synopsis of the prospective changes to the legislation is attached as Appendix One.

- 1.2 It also raises awareness of the publication of the 2016 LGPS Annual Report, detailing scheme trends at a national level and a number of issues relating to governance of the Scheme; including difficulties faced by Academies in fulfilling their employer responsibilities as a consequence of non-standardised administrative and funding policies across the LGPS.

### **2.0 BACKGROUND AND KEY ISSUES**

#### **LGPS Annual Report 2016**

- 2.1 The Scheme Advisory Board has published the fourth Annual Report for the LGPS in England and Wales. It is based on information collated from the Annual Reports and audited Financial Statements of LGPS funds in England and Wales to 31st March 2016.

## 2.2 The key highlights are as follows:

- Total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and number of LGPS employers increased by 2,635 (22%) to 14,435.
- Total assets of the LGPS held at £217bn (a change of 0.0%). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%).
- The Local Authority net return on investment over 2015/2016 was 0.1%. This was reflective of the difficult market conditions during the year and set against the FTSE All Share Total Return of -3.9%.
- Overall the scheme maintained a positive cash-flow position although income was lower than total scheme outgoings by £279m; excluding investment income.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.5m pensioners received income from the scheme over the year.
- Fewer than 91 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman.

2.3 As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%. During 2016, the Board has been actively developing proposals to further tackle the estimated funding deficit of £37bn (£47bn in 2013) to improve the sustainability of the LGPS and its future funding levels. The next triennial valuation of the LGPS will be as at 31st March 2019.

2.4 During 2014 the Board developed a suite of LGPS pension fund 'health' indicators. These were piloted in 2015 with the aim of rolling them out to coincide with the LGPS 2016 triennial valuation. This will enable the assessment and benchmarking of the overall health of the scheme relative to other large public or private pension schemes, as well as between individual LGPS funds. The results of the pilot form part of the annual report. The full report can be accessed at:

<http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>

## **Academies**

- 2.5 During 2016 the Scheme Advisory Board commissioned PwC to undertake work to identify issues connected to academy participation in the LGPS and the implications of future increases in academy schools and Multi-Academy Trusts (MATs) - as perceived by a range of stakeholders (e.g. schools, MATs, relevant government departments, relevant unions, academy payroll service providers and pension funds). The issues relate to:
- Administration
  - Actuarial and funding
  - Investment and legal (including member representation)
- 2.6 PwC's report "**Options for Academies in the LGPS**" has been published and will enable the Scheme Advisory Board to engage with key stakeholders including pension funds, actuarial firms and academy trusts as appropriate on the issues raised by those interviewed by PwC.
- 2.7 Following discussion with Ministers (to be re-affirmed with any new ministers) it has been decided to look for solutions to academy issues within the LGPS structure.

Solutions are targeting the following objectives:

- Greater consistency in contributions and a lower administrative burden on academy staff (Department for Education)
  - Ensure that no debts are transferred from the academy sector (Department for Education) to other areas of the LGPS (DCLG / SAB)
- 2.8 The Board will continue to gather relevant evidence and then develop specific proposals for change before submitting its recommendations to Ministers for their consideration. The full report can be accessed here:

[http://www.lgpsboard.org/images/PDF/LGPS\\_Advisory\\_Board\\_Options\\_for\\_Academies\\_20170525.pdf](http://www.lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_Academies_20170525.pdf)

## **Survey of New Governance Arrangements**

- 2.9 The Scheme Advisory Board recently requested that Chairs of Pensions Committees and Local Pension Boards participate in a survey to assess the effectiveness and operational efficiency of the new governance arrangements with particular emphasis on the role and function of the local pension board.

The survey has now also been extended to scheme stakeholders, in particular the main local government trade unions.

The web based survey can be found here: <http://lgpsboard.org/survey.php>

## **The Public Service Governance and Administration Survey**

- 2.10 The Pensions Regulator undertakes an annual Public Service Governance Survey. The regulator expects all public service schemes to participate in the research to help understand what schemes are doing to improve their standards of governance and administration - so it can focus on the areas which need more support and education.
- 2.11 The results of the 2016 Governance and Administration survey were recently published in their 2017 report. The survey generally shows an ongoing improvement in governance but the most commonly identified barrier to improvements in governance and administration for the LGPS was resource constraints.
- 2.12 Top priorities for this year are scheme governance, record keeping, internal controls and member communication. The Regulator has confirmed that tolerance for scheme shortcomings in these areas is reducing and that they are more likely to use their enforcement powers for recalcitrant scheme managers.

The full report can be accessed at:

<http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2017.pdf>

### **3.0 RELEVANT RISKS**

- 3.1 Failure to allocate necessary resource to support employers in addressing data quality deficiencies, would increase the risk on non-compliance with Pension Regulators expected standards of administration leading to censure and reputational damage.

### **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 None associated with the subject matter.

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

8.1 The proposed reform of exit payments (referenced in Appendix One) are intended to reduce compensation awards, limiting costs for employers and taxpayers, resulting from the early release of pension benefits on the grounds of redundancy or voluntary severance.

## **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**

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## **APPENDICES**

### **Appendix 1- LGPS Update Synopsis**

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

### **BRIEFING NOTES HISTORY**

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

# Synopsis of Prospective Changes to LGPS & Overriding Pension Legislation

June 2017

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	<a href="https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation">https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation</a>	<p>Published 5 December and closing on 13 February 2017 – MPF submitted a response.</p> <p>This consultation sets out a package of measures aimed at tackling three different areas of pensions scams, a cold calling ban; consulting on clarifying the law so that Funds can block pension transfers and making it harder to open fraudulent schemes.</p> <p>The Fund response supported the suggested actions within the consultation</p>
HM Treasury	Indexation and equalisation of GMP in public service pension schemes	<a href="https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes">https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes</a>	<p>Published on 28 November 2016, and a response sent from MPF.</p> <p>This consultation gave three options for increasing Guaranteed Minimum Pensions (GMP) within the public sector for those people reaching State Pension age from 6 December 2018.</p> <p>The Fund's preferred approach of converting the GMP into scheme benefits, was presented as the simpler, longer term solution</p>

HM Treasury	Reforms to Public Sector exit payments: response to the consultation	<a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555304/reforms_to_public_sector_exit_payments_consultation_response.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555304/reforms_to_public_sector_exit_payments_consultation_response.pdf</a>  <a href="http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf">http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf</a>	<p>Introduction of new regulations for exit payments appear to have been further delayed as a result of the recent General Election.</p> <p>Summary of proposed changes:</p> <ol style="list-style-type: none"> <li>1. recovery of exit payments for high earners who are reemployed - actual regulations expected any time</li> <li>2. the £95k cap for exit. Employment Enterprise Regulations have commencement regulations effective from 1 February 2017 short consultation possible awaiting further information</li> <li>3. third tranche on exit payments Government responded to the consultation on reforming exit payments across the Public Sector.</li> </ol> <p>Government departments asked to submit details of their proposals; including limits on employer funded early access to pension benefits (e.g. redundancy and business efficiency retirements in the LGPS)</p>
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<b>DCLG</b>	LGPS Regulations: Draft Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	<a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/526538/Consultation_on_Local_Government_Pension_Scheme_Regulations.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/526538/Consultation_on_Local_Government_Pension_Scheme_Regulations.pdf</a>	<p>This consultation reviews the approach for Best Value and Fair Deal for the transfer of staff. Closed 20 August 2016.</p> <p>Responses led to DCLG deciding to split these away from the amendment regulations as a rethink was required.</p> <p>Nothing expected before June 2017</p> <p>The other amendments will be processed earlier but need changes to the Freedom and Choice section so short consultation may be required.</p> <p>Expected implementation delayed because of General Election</p>
<b>Government Actuaries Department (GAD)</b>	Managing risks in the public service pension schemes	<a href="https://www.gov.uk/government/publications/managing-risks-in-public-service-pension-schemes-thoughts-on-measures-and-control-mechanisms">https://www.gov.uk/government/publications/managing-risks-in-public-service-pension-schemes-thoughts-on-measures-and-control-mechanisms</a>	<p>GAD has published a document outlining its thoughts on a report published in June, from the National Audit Office on the Government's Public Sector pension liability.</p> <p>The document sets out some ideas on appraising long-term risks for public sector pension schemes.</p>

<b>Scheme Advisory Board (SAB)</b>	Academies' review	<a href="http://www.lgpsboard.org/index.php/structure-reform/review-of-academies">http://www.lgpsboard.org/index.php/structure-reform/review-of-academies</a>	<p>Ministers agreed that DfE, DCLG, GAD and the SAB should continue to work closely together to pursue solutions, engaging key stakeholders; including pension funds, actuarial firms and academy trusts as appropriate.</p> <p>The next stage will be to gather relevant evidence and develop specific proposals for change that the SAB will consider before submitting its recommendations to Ministers for their consideration</p>
<b>Scheme Advisory Board (SAB)</b>	Committees – membership & remit	<a href="http://www.lgpsboard.org/index.php/sub-comms/membership-remit">http://www.lgpsboard.org/index.php/sub-comms/membership-remit</a>	<p>The Scheme Advisory Board have requested that a further review of ill-health retirement benefits be carried out; taking on-board the recommendation previously made by the Shadow sub-committee. A Working Group has been set-up.</p>

# **WIRRAL COUNCIL**

## **PENSION COMMITTEE**

**18 SEPTEMBER 2017**

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

### **1.0 EXECUTIVE SUMMARY**

- 1.1 This report updates Members on the ongoing workstream of the Scheme Advisory Board's Administration and Communication Sub-Committee (ACSC) to consider the effectiveness of the ill health retirement provisions under the LGPS regulatory framework.
- 1.2 It also sets out the current position on the public sector exit payment reforms, following the general election and the formation of the new Government.

### **2.0 BACKGROUND AND KEY ISSUES**

#### **Ill Health Retirement Simplification**

- 2.1 The Scheme Advisory Board (SAB) agreed that it was necessary to develop recommendations on a revised ill health retirement structure - in order to simplify the qualification criteria and the administrative process in determining a member's eligibility for ill health retirement.
- 2.2 The ACSC has been tasked to consider the options for change and to commission the Government Actuary Department (GAD) to assess whether the proposed revised structure would fall within the current cost envelope for ill health provision.

## **2.3 Current Ill health benefit structure**

### **Qualification**

A member who has met the two year Scheme vesting period and can meet the following criteria:

**Step 1:** as a result of ill-health or infirmity of mind or body, is permanently incapable of discharging efficiently the duties of the employment the member was engaged in, and

**Step 2:** is not immediately capable of undertaking any gainful employment will receive one of the ill health benefits as follows:

- **Tier 1**  
If the member would not be able to undertake gainful employment prior to Normal Pension Age (NPA) they would receive an immediate unreduced pension and an enhancement based on 100% of the pension accrual that could have been achieved to NPA.
- **Tier 2**  
If the member would be able to undertake gainful employment more than three years after retirement, but prior to NPA, they would receive an immediate unreduced pension and an enhancement based on 25% of the pension accrual that could have been achieved to NPA.
- **Tier 3**  
If the member would be able to undertake gainful employment less than three years after retirement they receive an immediate unreduced pension. Payment of these benefits will be stopped after 3 years, or earlier if the member is in gainful employment or has become capable of such employment.

## **2.4 Issues with the current structure**

This three tier system presents an administrative burden to employers and administrators and is the cause for the majority of IDRP and Pension Ombudsman cases, due to its overly complex nature and inconsistent application, resulting in the dissatisfaction of scheme members.

Also, members who are permanently incapable of doing their own jobs, but who are immediately capable of gainful employment, do not receive an immediate pension, but rather deferred benefits.



## 2.5 Options for change to the benefit structure and cost envelope

The removal of the third tier was put forward to GAD for a costing based on the following metrics:

- **Preferred Option 1:** To remove the third tier of ill health and replace this with a permanent benefit
- **Preferred Option 2:** To remove the second step for qualification, i.e. the assessment of whether or not someone is capable of other gainful employment

Adopting both of these options would incur additional scheme costs of 0.09% of pay which would have to be offset in one of the following ways, to ensure the revised ill health provisions are cost neutral:

- To reduce the ill health enhancement for Tier 1 benefits
- To reduce the enhancement for both the Tier 1 and Tier 2 benefits proportionally
- To move to a 5 year qualifying period for enhanced benefits.

2.6 The ACSC believed the 5 year qualification period is the most desirable option as it rewards longer scheme membership, it is simple and completely covers the cost (through a saving of 0.10% of pay).

2.7 The proposed options to reform the Ill health benefit provisions will result in a more straightforward qualification and administrations process as follows:

A member who meets the two year scheme vesting period whose employment is terminated by their employer on the grounds of ill health with an Independent Medical Practitioner (IRMP) certifying that *the member is, as a result of ill-health or infirmity of mind or body, permanently incapable of discharging efficiently **the duties of the employment the member was engaged in***, would receive immediate payment of unreduced benefits.

If the member also meets the five year requirement for enhancement they would receive either:

**Tier 1:** Receive an enhancement based on 100% of the pension accrual that could have been achieved to NPA if they would not be able to undertake gainful employment prior to NPA

Or

**Tier 2:** Receive an enhancement based on 25% of the pension accrual that could have been achieved to NPA if they were only permanently incapable of doing their own job.

- 2.8 At the Scheme Advisory Board meeting of 26 June 2017 ACSC asked the Board to consider whether the above three preferred options should be recommended to the Secretary of State subject to consultation with employers and members. I will keep members apprised of the outcome of the board's decision at a future meeting of this committee.

## **2.9 Reform of Public Sector Exit Payments**

It is the general consensus across the public sector that there is no policy change in respect of the various exit payment reforms that the Government were in the process of introducing prior to the snap election. However, given the focus on Brexit in the coming period it is unclear the extent to which pursuing each reform will be a priority for the Government. The implementation timescales the Government plan to adopt for each reform has not been disclosed.

## **2.10 Exit payment recovery**

The draft regulations issued under the Small Business, Enterprise and Employment Act 2015 proposed that where an individual with a salary of £80,000 or more leaves a public sector employment and returns to work in the public sector within 12 months, they will be required to pay back some or all of the exit payments (including early retirement strain costs).

Prior to the announcement of the general election the final HM Treasury regulations that would have enacted the recovery provisions were expected "soon". When issued the regulations will be overriding, meaning that it will not be necessary to amend the LGPS regulations for the recovery provisions to have effect. For the recovery regulations to apply the individual must have both left and become re-employed in relevant public service employments on or after the effective date of the recovery regulations (i.e. the regulations will not be retrospectively applied).

## **2.11 Exit Cap**

Where an individual leaves a public sector employment, the total exit payments that their employer can make in respect of that exit will be capped

at £95k. This cap includes the strain cost payable in respect of an LGPS pension coming into payment early.

It is expected that there will be further consultation (draft HM Treasury regulations) on how the cap will work in practice. The consultation is expected to last for 6-8 weeks and once final Treasury regulations are laid they will enact the relevant parts of the Enterprise Act 2016 and will amend the LGPS regulations.

## **2.12 Reform of Severance Packages**

HM Treasury issued its formal response to the Government consultation on proposals to revise the overall severance packages payable from public sector bodies in September 2016. The response set out the broad criteria within which they expected responsible departments to reform the exit packages of their workforces.

It is necessary for DCLG to publish a consultation on the proposed package for local government to progress changes to policy.

## **3.0 RELEVANT RISKS**

- 3.1 There is a risk that the proposals to simplify the ill health process could be challenged on the basis that the five year qualifying criteria for enhanced benefits may disadvantage members with short service who suffer serious ill health.
- 3.2 There is a risk that the introduction of the exit cap and measures to limit employer pension strain costs, could potentially inhibit local authority workforce planning and an increase, within the sector, of compulsory redundancies as opposed to voluntary redundancy exercises.

## **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 None associated with the subject matter.

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

8.1 The proposed options to reform the Ill health benefit provisions would result in a clearer operational process, thus reducing the administration burden on both employers and the Fund in communicating as ill health decision outcome to a member.

## **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 stewardship function.

**REPORT  
AUTHOR**

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**BRIEFING NOTES HISTORY**

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

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## WIRRAL COUNCIL

### PENSIONS BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT ANNUAL REPORT</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 The Treasury Management Annual Report taken to 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 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 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 no planning or community safety implications 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 pensions Board to be kept informed of pension fund developments as part of their role in assisting the administering authority.

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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



**WIRRAL COUNCIL**  
**PENSIONS COMMITTEE**  
**17 JULY 2017**

<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT ANNUAL REPORT 2016/17</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR, DELIVERY</b>
<b>KEY DECISION?</b>	<b>NO</b>

## 1.0 EXECUTIVE SUMMARY

- 1.1 This report presents a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2016/17 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 25 January 2016 Pensions Committee approved the Treasury Management Policy and Strategy 2016/17.
- 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 2017, MPF had a cash balance of £75.2 million as against £40.0 million at 31 March 2016. All of these funds were held on call (instant access) accounts with Lloyds, Svenska Handelsbanken and Invesco.
- 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 was further reduced from 0.50% to 0.25% in August 2016.

- 2.7 Over the twelve month period, Northern Trust calculated the cash performance to be 0.35% against a benchmark performance (7 day LIBID) of 0.21%.
- 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 2016/17.
- 2.10 There Fund was compliant with the treasury management policy throughout 2016/17.

### **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 2016/17 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).

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### **APPENDICES**

*None.*

### **REFERENCE MATERIAL**

*Code of Practice for Treasury Management in Public Services – CIPFA 2009*

### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>20 January 2014</b>
<b>Pensions Committee</b>	<b>1 July 2014</b>
<b>Pensions Committee</b>	<b>19 January 2015</b>
<b>Pensions Committee</b>	<b>22 June 2015</b>
<b>Pensions Committee</b>	<b>25 January 2016</b>
<b>Pensions Committee</b>	<b>20 June 2016</b>
<b>Pensions Committee</b>	<b>23 January 2017</b>

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## WIRRAL COUNCIL

### PENSIONS BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>GENERAL DATA PROTECTION REGULATIONS</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report provides members with a copy of a report taken to September Pensions Committee on the implications of the General Data Protection Regulations for the Fund.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The EU's General Data Protection Regulation (GDPR) is a legal framework with the aim of boosting online privacy rights and strengthening the digital economy in the European Union. The GDPR brings harmonisation by applying the same set of Data Protection rules across the EU.

The changes are in response to how both globalisation and technological change have impacted how data is collected, stored, shared and transferred since the introduction of the Data Protection Act in 1998.

#### 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.

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## **APPENDICES**

ISS

## **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**

**18 SEPTEMBER 2017**

<b>SUBJECT:</b>	<b>GENERAL DATA PROTECTION REGULATIONS (GDPR)</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR, DELIVERY</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION?</b>	<b>NO</b>

**1.0 EXECUTIVE SUMMARY**

- 1.1 This report updates Members on the duties and obligations arising out of the General Data Protection Regulations which come into force on 25 May 2018.
- 1.2 The GDPR is a European Union (EU) directive that will govern how personal data should be held and processed by all 28 EU member states.
- 1.3 The UK Data Protection Act 1998 will no longer apply after 25 May 2018. The potential fines for infringement under the new legislation are substantial, up to 4% of annual global turnover or 20,000,000 Euros.

**2.0 BACKGROUND AND KEY ISSUES**

- 2.1 The EU's General Data Protection Regulation (GDPR) is a legal framework with the aim of boosting online privacy rights and strengthening the digital economy in the European Union. The GDPR brings harmonisation by applying the same set of Data Protection rules across the EU.

The changes are in response to how both globalisation and technological change have impacted how data is collected, stored, shared and transferred since the introduction of the Data Protection Act in 1998.

- 2.2 The GDPR will come into force in all EU Member States on 25 May 2018. The UK will still be a member state of the EU on the 25 May 2018 and the government announced on 21 June 2017 that it would implement the GDPR and retain the new legislation following Brexit.
- 2.3 The GDPR does not mark a radical departure from the current data protection regime (the UK Data Protection Act 1998). There is already a legal obligation on LGPS Administering Authorities to keep member data secure, but new legislation will have a significant impact on the obligations of Administering Authorities and the potential financial penalties for non-compliance.

### **Key changes for the Pension Fund under the GDPR**

- 2.4 In summary, the key areas covered by GDPR are as follows:

<b>Key Changes</b>		<b>Description</b>
a	Stricter requirements around consent	The Fund must be able to demonstrate openly and transparently to members that it has 'lawful consent' to hold and process their personal data in its duties to administer the Local Government Pension Scheme.
b	Privacy notices on the use of personal data	Privacy notices to be provided to members detailing : <ul style="list-style-type: none"> <li>• how their data will be used;</li> <li>• third-party recipients of their data;</li> <li>• the various rights members have in respect of their data; and</li> <li>• the period for which the data will be stored.</li> </ul>
c	Right to be forgotten	Where the data is no longer necessary for the purpose of administering the Scheme, members can request the complete erasure of personal data.  The Fund will need to demonstrate clearly to a member when it cannot comply with that request as part of the overarching statutory duties to the LGPS and HMRC.
d	Relevant & necessary	Information must be relevant and not kept for longer than is necessary. Pension schemes typically keep information for decades, the Fund (and the LGPS community as a whole) will need to agree on what information

		should be retained and for how long.
e	Data Processing contracts with third parties	Currently data sharing agreements are required and in place with third parties; or 'Data Processors'.  However, GDPR will impose direct liability on data processors requiring a review of current agreements and related supplier contracts.
f	Reporting data breaches	Personal data breaches must be notified to the Information Commissioners Office within 72 hours of having become aware of a breach. The member must also be notified if the breach is likely to result in a high risk to the member.
g	Increased record keeping obligations	The Fund must ensure records are maintained to show how they comply with the GDPR.
h	Subject Access Requests	An individual can request a copy of all personal data held by the Fund, currently this is required to be processed in 40 calendar days. The GDPR will shorten this timescale to one calendar month from receipt of the request.

### **Increase in Monetary Penalties for Non-Compliance**

- 2.5 The Data Protection Act 1998 is enforced by the Information Commissioner's Office (ICO). The ICO can currently fine an organisation in serious breach of the act up to £500,000
- 2.6 The GDPR will introduce a new upper limit of 20,000,000 Euros or 4% of annual global turnover (whichever is the higher for the private sector).

### **Cyber Security & IT Contingency**

- 2.7 As the Fund utilises computer systems to hold and process member records, the effective security and governance of these systems is fundamental to ensuring compliance with GDPR. This is particularly important as the Fund makes its strategic move to conduct more of its business with scheme members via internet based online systems. The online availability of personal information places the Fund at an increased risk of cyber-crime and being

subject to sophisticated cyber-attack, with the potential for high volumes of personal data being stolen.

- 2.8 Wirral Council as the Administering Authority provides the computer network infrastructure for the Fund. Fund Officers work closely with colleagues within 'Wirral Digital' on ensuring the security and availability of the computer systems and member data.
- 2.9 The Fund has in place system security, anti-virus software, data encryption and secure-email facilities as part of the services provided by Wirral Digital. Systems are regularly updated for security patches and backups of data are stored offsite.
- 2.10 Whilst there is considerable media focus on sophisticated cyber-attacks, the majority of data breaches are as a consequence of organisations failing to put robust security controls in place. The GDPR consequently reinforces the need for both 'technical' (computer software and physical security) and 'organisational' (work practices and employee training) measures to keep personal data safe.
- 2.11 All Fund staff annually undertake an e-learning course entitled "Responsibility for Information" as staff awareness of data protection is a significant part of ensuring ongoing compliance.

#### **Partnership working to meet GDPR duties and obligations**

- 2.12 Fund officers are working with colleagues in Legal & Democratic Services and Wirral Digital as part of the larger Administering Authority plan to meet the new duties and obligations of the GDPR.
- 2.13 However, Fund Officers are also actively engaged with colleagues at other Funds and the Local Government Association (on behalf of all Funds) in gaining a clear, coherent and consistent response to the demands of GDPR compliance. In particular, a key work area being worked on collaboratively is appropriate communications to scheme members for use in advance of May 2018.
- 2.14 In gaining the clear, coherent and consistent approach across the LGPS community, the LGA are commissioning legal opinion on a number of areas from Squire Patton Boggs (SPB). A number of these areas are in response to questions raised by officers as part of the partnership work with the LGA.

### **3.0 RELEVANT RISKS**

- 3.1 Non-compliance with the organisational and security requirements of the GDPR from 25 May 2018 introduces the potential of significant reputational risk and monetary risk to the potential maximum of 20,000,000 Euros or 4% of annual global turnover.
- 3.2 The strategic move to conduct more of its business online places the Fund at an increased risk of cyber-crime and being subject to sophisticated cyber-attack, with the potential for high volumes of personal data being stolen. This risk is mitigated by the continued high priority commitment to computer security, robust organisational work practice and staff awareness training.

### **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 None associated with the subject matter.

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

- 8.1 Collaborative working with the LGA and other Funds continues the benefits that the Fund has experienced previously when sharing resources.
- 8.2 A number of questions have been raised by Fund officers to the LGA as part of the initial impact assessment of the GDPR. The LGA is meeting the expense of gaining legal opinion from Squire Patton Boggs.

### **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 the General Data Protection Regulations have been assessed for equality by the European Commission whilst being formulated as a directive for EU states.

## **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 stewardship function.

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## **BRIEFING NOTES HISTORY**

Briefing Note	Date

## WIRRAL COUNCIL

### PENSIONS BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) OPT UP</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 The report of the implications of MIFID II taken to Pensions Committee is attached as an appendix to this report.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 This report provides members with background information on MIFID II, a European Union Directive that regulates firms who provide services to clients such as the LGPS with a range of financial instruments such as shares, bonds, and units in collective investment schemes which is coming into effect on 3 January 2018.
- 1.2 A major and contentious element in the proposals for MIFID II is the reclassification of local authorities as “retail investors” which would fundamentally change the way in which local authority pension funds conduct investment business with their counterparties in relation to all asset classes. The appendix provides information on the “opt up” process being undertaken in response to this change.

#### 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.

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## **APPENDICES**

MIFID consultation & appendix



**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**

**18 SEPTEMBER 2017**

<b>SUBJECT:</b>	<b>MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) CONSULTATION</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR DELIVERY</b>
<b>KEY DECISION?</b>	<b>NO</b>

### **1.0 EXECUTIVE SUMMARY**

- 1.1 A report was brought to this Committee in January 2017, setting out the implications for the Fund of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018. This report recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

### **2.0 BACKGROUND AND KEY ISSUES**

- 2.1 Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non-MiFID scope business and are categorised as ‘per se’ professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt up criteria’. The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’ (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.
- 2.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a “per se professional client” or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted-up by firms to an “elective professional client” status.
- 2.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

## **Potential impact**

- 2.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- 2.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 2.6 Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able even to discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

## **Election for professional client status**

- 2.7 MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test.
- 2.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
- 2.9. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as APPENDIX 2
- 2.10 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

- 2.11. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats...
- 2.12. A flowchart of the process is attached as APPENDIX 3 and the letter and information templates are attached as APPENDICES 4 and 5
- 2.13. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status. Examples would be if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.
- 2.14. In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.
- 2.15. The officer named in the recommendations should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

### **3.0 RELEVANT RISKS**

- 3.1 As set out in sections 2.4 – 2.6, if the current proposals are implemented and local authorities are reclassified as retail investors there will be serious consequences for the effective implementation of pension fund strategies going forward

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 There are no other options as, once MIFID II takes effect from 3 January 2018, it will be a mandatory requirement.

### **5.0 CONSULTATION**

N/A

### **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 no implications arising directly from this report.

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

- 8.1 The Fund has a significant number of relationships and considerable time and effort will be involved in corresponding with them and resolving issues that may arise.

## **9.0 LEGAL IMPLICATIONS**

- 9.1 MIFID II is due to take effect on 3 January 2018.

## **10.0 EQUALITIES IMPLICATIONS**

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

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

## **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

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

## **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 12.1 There are no planning or community safety implications arising from this report.

## **13.0 RECOMMENDATION/S**

- 13.1 That Pensions Committee

- i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018
- ii. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
- iii. In electing for professional client status acknowledges and agrees to forgo the protections available to retail clients attached as APPENDIX 1.
- iv. For the avoidance of doubt, agrees to approve delegated responsibility to Director of Pensions for the purposes of completing the applications and determining the basis of the application.

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

- 14.1 That members are kept informed of the potential implications of MIFID II and the requirement to opt up to professional status.

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## APPENDICES

APPENDIX 1 – Retail client protections  
APPENDIX 2 – Summary of FCA policy statement  
APPENDIX 3 – Opt up process flowchart  
APPENDIX 4 – Opt up letter template  
APPENDIX 5 – Opt up information template

## BACKGROUND PAPERS/REFERENCE MATERIAL

MIFID II FCA [www.fca.org.uk](http://www.fca.org.uk)

Local Government Pension Scheme Advisory Board - Response to Markets in

Financial Instruments Directive II Implementation Consultation Paper III

Local Pensions Partnership submission to HM Treasury 15 December 2016

## BRIEFING NOTES HISTORY

Briefing Note	Date

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	January 2017

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## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

**5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

**6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

**7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

**8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

**9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

**10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

**11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

**12. Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

**13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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## FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

**Highlights** (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

### Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

#### **Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)**

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

#### **Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter**

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

#### **Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position**

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

## **Page 71 Our response on the quantitative test – portfolio size threshold**

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.<sup>47</sup>

While a local authority’s ability to borrow extra funds to ‘game’ this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

## **Page 74 Our response on transitional arrangements**

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

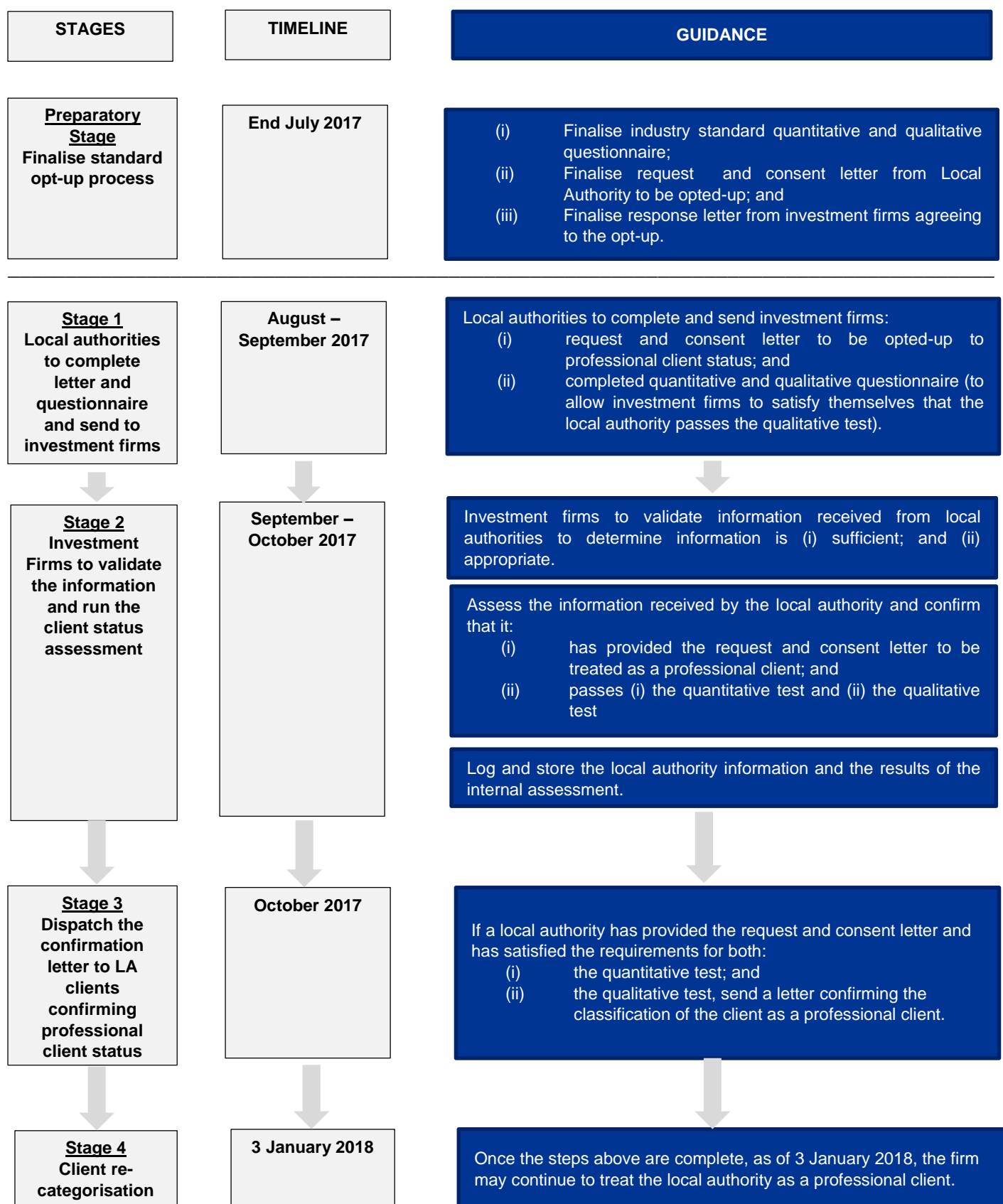
Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.



### UK Local Authority Client Opt-Up Process



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## Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

### **Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by **NAME OF AUTHORITY** (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

**[insert name and position]** [Authority]

## **Schedule 1**

### **Warnings - loss of protections for the Local Authority if categorised as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

### **Part 1 – Loss of protections as a Professional Client when receiving Services**

#### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

#### **2. Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

#### **3. Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

#### **4. Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

## **Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions**

### **1. Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

### **2. Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

### **3. Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

### **4. Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

### **5. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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## WIRRAL COUNCIL

### PENSION BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>UPDATE TO INVESTMENT STRATEGY STATEMENT GUIDANCE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR DELIVERY</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of a High Court ruling that impinges on the guidance issued by the Secretary of State in relation to investment strategy statements.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 In September last year, the DCLG issued statutory guidance on preparing and maintaining an investment strategy statement (ISS).
- 2.2 Following a case brought by the Palestine Solidarity Campaign, the High Court ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance on preparing and maintaining an investment strategy statement published in September last year is unlawful.
- 2.3 The reason given is that the Secretary of State had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes” The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgment, the inference is that that part of the statutory guidance referred to in paragraph 1 of the judgment is struck out.
- 2.4 The High Court was also asked to judge whether (a) the guidance lacked clarity and certainty and (b) whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions are made. On both matters, the judge ruled in favour of the Secretary of State.
- 2.5 This ruling will not affect the Fund’s ISS which was approved by Pension Committee in March of this year.

### **3.0 RELEVANT RISKS**

- 3.1 It is important that the Fund's key documents remain up-to-date and compliant with legislation.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options have been considered.

### **5.0 CONSULTATION**

- 5.1 Not relevant to this report.

### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 There are no previously approved actions outstanding.

### **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are none arising from this report.

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

- 8.1 There are none arising directly from this report.

### **9.0 LEGAL IMPLICATIONS**

- 9.1 There are none arising from this report.

### **10.0 EQUALITIES IMPLICATIONS**

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

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

### **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

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

### **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 12.1 There are none arising from this report.

### **13.0 RECOMMENDATION/S**

- 13.1 That Members note the report.

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

14.1 It is important that Members are informed of changes to the LGPS.

**REPORT AUTHOR: PETER WALLACH**  
Director of Pensions  
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email peterwallach@wirral.gov.uk

## **APPENDICES**

None

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

## **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>ISS</b>	<b>March 2017</b>

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## WIRRAL COUNCIL

### PENSION BOARD

**10 OCTOBER 2017**

<b>SUBJECT:</b>	<b>ANNUAL EMPLOYERS' CONFERENCE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 The attached report was taken to Pensions Committee in September 2017, informing Members of the arrangements for the annual Employers' Conference to be held on Thursday 30 November 2017.

#### **2.0 BACKGROUND AND KEY ISSUES**

- 2.1 The 2017 conference will be held at Aintree Racecourse on **Thursday 30 November**.

#### **3.0 RELEVANT RISKS**

- 3.1 There are none arising directly from this report.

#### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 Not relevant for this report.

#### **5.0 CONSULTATION**

- 5.1 Details are contained within the attached committee 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 Related implications are identified in the attached committee report.

## **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?

Yes – details are contained within the attached committee report.

## **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 Board Members note the report and are cordially invited to attend.

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

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

### **REPORT AUTHOR**

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## **APPENDICES**

Committee Report on Annual Employers' Conference 2017

# **WIRRAL COUNCIL**

## **PENSION COMMITTEE**

**18 SEPTEMBER 2017**

<b>SUBJECT:</b>	<b>ANNUAL EMPLOYERS' CONFERENCE</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR, DELIVERY</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION?</b>	<b>NO</b>

### **1.0 EXECUTIVE SUMMARY**

- 1.1 This report informs Members of the arrangements for the annual Employers' Conference to be held on Thursday 30 November 2017.

### **2.0 BACKGROUND AND KEY ISSUES**

- 2.1 The 2017 conference will be held at Aintree Racecourse on **Thursday 30 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 on the updated Pensions Administration Strategy to be implemented from 1 April 2018.
- 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 all Members of this Committee as soon as arrangements are finalised.

### **3.0 RELEVANT RISKS**

3.1 There are none rising directly from this report.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 Not relevant for this report.

### **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 None associated with the subject matter.

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

8.1 The cost of holding the Conference is estimated at £7,800; provision for which is contained within the budget.

### **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?

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**

13.1 That members note the report.

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

14.1 The event provides a forum for officers, advisors and the 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.

<b>REPORT</b>	Guy Hayton
<b>AUTHOR</b>	Operations Manager
	Telephone (0151) 242 1361
	Email <a href="mailto:guyhayton@wirral.gov.uk">guyhayton@wirral.gov.uk</a>

## **BRIEFING NOTES HISTORY**

Briefing Note	Date

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## WIRRAL COUNCIL

## PENSIONS BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>PENSION ADMINISTRATION - RECORDS MANAGEMENT &amp; DATA IMPROVEMENT POLICY</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>PRINCIPAL PENSIONS OFFICER</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of the report is to update Pension Board of the introduction of a records management and data improvement policy for the Pension Administration section.
- 1.2 It provides a transparent framework in regard to the processes and responsibilities in approaching data quality and demonstrates the Fund's commitment to embed proactive and preventative techniques within its business practice - to achieve a continual programme of data improvement.

### 2.0 Background and Overview

#### **The Pensions Regulator – Code of Practice No.14**

- 2.1 The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on member pension transactions.
- 2.2 Fund Officers have always placed the attainment of good quality data high on its list of priorities. However, the importance of data quality has been heightened recently following the findings of the TPR's public sector survey; along with their assertions on the need for improvements to record keeping and member communications.
- 2.3 The forthcoming changes in Data Protection legislation also exacerbate the level of scrutiny with regard to an organisation's statutory responsibility to ensure the lawful recording and processing of personal member data.

### **Progress on Data Quality**

- 2.4 The board has been apprised over the previous two years of the activity undertaken by the Fund to resolve poor data quality, along with the outcome of the internal annual assessments of the Fund's compliance against the TPR Code of Practice.
- 2.5 A data improvement plan has been developed to address issues identified as part of the annual contribution return review e.g. missing member data and outstanding leaver documentation.
- 2.6 The team has also refined its 'data mining' processes as a consequence of issues emerging from the 2016 valuation. The objective of the record management policy is to provide a structured, rigorous approach to achieving and maintaining data quality.

### **Compliance**

- 2.7 As the employer base continues to fragment due to outsourcing and academy conversions, along with the increasing complexity of the scheme benefits, data quality, employer engagement and communications is a key focus for the Fund.
- 2.8 To help deliver the data quality programme, in compliance with legal requirements, the Fund's strategic business plan includes a significant investment in IT systems. In addition, the administration team has been restructured to include an Employer & Data Compliance manager and 1.5 FTE Data Analyst posts - with the main remit to implement and monitor the data improvement policy and increase employer engagement.
- 2.9 Officers will continue to support the work of the Pensions Board as it is anticipated that both the Pensions Regulator and Scheme Advisory Board will increase their level of scrutiny in the areas of data quality and member communications.
- 2.10 The Pension Administration Strategy also sets the direction of travel which is aligned to a digital operating environment and reflects the increasing governance requirements in regard to data quality.

### **3.0 Noting Points**

- 3.1 A draft version of the policy is attached as an appendix to the report for the Board's consideration.
- 3.2 Any suggested amendments to the proposed procedures and policy to improve record keeping are welcome before presenting the final draft to the Pension Committee in November 2017

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# Pension Administration Records Management & Data Improvement Policy

September 2017

**Draft**

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# 1. Introduction

This document defines the records management and data improvement policy of the Pension Administration section of Merseyside Pension Fund (the Fund) and is supplemental to the Pension Administration Strategy.

The Fund collects and holds large amounts of digital and paper based data and is heavily reliant on the timely receipt of quality data from employers, in order to effectively administer the Local Government Pension Scheme (LGPS).

Fundamentally, the purpose of the Fund is to pay the **correct pension benefits to its members when they become due**. It is therefore imperative that the Fund achieves and maintains the highest possible data quality standards, to comply with its core functions and to ensure the cost effective use of resources.

The LGPS continues to face ongoing legislative change with oversight of administration and governance now falling under the remit of the Pension Regulator, with a heightened responsibility on scheme managers and local pension boards to ensure data is readily available and fit for purpose at all times.

To strengthen overall Scheme governance a Scheme Advisory Board is now in place, along with two cost control mechanisms; which seek to monitor and contain the overall cost of the LGPS at a national level, with individual funds providing experiential data to inform the process.

Given the financial constraints faced by the local government sector and the budgetary implications of delivering local fund valuations, it is critical that member data be sufficiently robust to inform the valuation exercise and withstand scrutiny from both internal and external audit.

The continuing diversification of the employer base, the increasing number of payroll providers and IT systems used to transfer information present the Fund with significant operational challenge in meeting the statutory record keeping requirements.

# 2. Purpose

This policy applies to all records created, received or maintained by staff at the Fund, its systems suppliers, professional service providers and consultants acting on behalf of the Fund during the course of carrying out the administration function.

Records are defined as all those documents which facilitate the business carried out by the Fund and what are, thereafter, retained for a period to provide evidence of its transactions or activities. These records may be created or received, and then stored, in paper copy or digital form (document, spreadsheet, database entries etc).

Some of the Fund's records are selected for permanent preservation as part of the Wirral Council's Record Retention Policy (documented separately).

## ‘Common’ & ‘Conditional’ Data

The Pension Regulator acknowledges that complete, accurate scheme records are a vital part of the administrative function. The Regulator defines two types of data held in scheme records:

<b>Common Data</b>	used to identify scheme members and would include names, addresses, national insurance number and date of birth.
<b>Conditional Data</b>	essential to calculate benefit entitlements such as, member contributions, pensionable pay, service history.  It also encompasses data relating to events that occur during an individual’s membership, for example transfers, purchase of additional pension and pension sharing orders.

Both types of data are equally important, but are defined separately for the purposes of measurement and relationship to obligations under the Data Protection Act (personal data).

## Data Protection

The Fund needs to collect and use different types of information about people with whom it deals and communicates in order to operate. The Data Protection Act details the requirements and safeguards which must be applied to personal data to ensure the rights and freedoms of living individuals are not compromised.

The Fund is a ‘data controller’ as defined by the Data Protection Act and must observe the principles relating to the processing of personal data as outlined in the regulations. Registration at the Information Commissioner’s Office (ICO) is under the name of the administering authority, **Metropolitan Borough of Wirral** (Registration Number Z5881449).

This policy is also informed by the significant change to the Data Protection Act 1998 effective from 25 May 2018. The changes will require a greater level of transparency and accountability on authorities who manage the data of individuals.

The Fund will need to ensure ongoing compliance with record keeping and data quality standards in line with industry best practice, demonstrating to stakeholders the appropriate consideration of the Data Protection Act.

## 3. Legislative Framework

This Fund and its Employers have a legal obligation and statutory duty to comply with a number of regulations, standards and formal guidance; these include, but are not limited to:

- LGPS Regulations 2013, as amended;
- Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014;
- The Pensions Act 1995, 2004 and 2008;

- The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013;
- Data Protection Act 1998, and replacement legislation in May 2018;
- Freedom of Information Act 2000;
- Pension Regulator's Code of Practice No.14

## 4. Key Objectives & Activities

The key objectives of this policy and the activities of Fund officers are directed to ensure that:

- a) the Fund ensures compliance with the guidance of the Pension Regulator and establishes a robust, reviewable and transparent framework necessary for the acquisition and upkeep of accurate, complete and up-to-date records
- b) accurate records are maintained for the purpose of calculating pension entitlements and employer liabilities; ensuring all information and data is communicated securely and accurately, within prescribed timescales
- c) secure communication processes are in place to enable both the Fund and employers to proactively and responsively engage with each other in respect of record keeping and data quality standards
- d) the continued development of appropriate technology to improve data quality standards, and the streamlining of operational processing across employer and Fund workstreams
- e) the Fund and employers have a clear understanding of their respective roles and responsibilities, ensuring all parties are committed to the continuing engagement to improve data quality and promote accurate record keeping
- f) all data collection processes are clearly documented and regularly reviewed to 'stress test' the validity of data and to ensure they are aligned to updated legislative requirements
- g) there is commitment to monitor the delivery of specified activities in accordance with the relevant regulations and the Pension Regulator's Code of Practice
- h) an audit programme is in place to assess compliance with the policy, to test internal controls inherent within data collection processes and to ensure training requirements are identified and actioned
- i) the Fund will engage with large Scheme employers to facilitate a drive towards electronic submission of member data and documentation using the Fund's established protocols ('Employer Electronic Interface Files')
- j) the Fund is committed to extend the secure electronic submission of member data and documentation by other employers over a four year staged programme.

## 5. Responsibilities of Key Parties

A detailed overview of Fund and employer responsibilities, performance standards and escalation policy can be found within the Pension Administration Strategy.

In regard to the records management policy, there are additional general responsibilities.

### Fund Officers

Individual service areas have the responsibility to continually review and ensure that data collection is fit-for-purpose and processes are in place to monitor accuracy and timeliness. All processes must be underpinned by suitable documentation, staff training and skills transfer to ensure ownership, understanding and compliance at both a Fund and employer level.

All staff must undertake an annual e-learning course entitled “Responsibility for Information” as staff awareness of data protection is a significant part of ensuring ongoing compliance.

All staff will retain and dispose of records as part of a managed and documented process, overseen by service area managers. Staff must ensure records are disposed of in a secure and confidential manner; paper records with personal or commercial data must be placed into secure waste bins available in all service areas.

Service area managers monitor performance in relation to records and data quality this is used to inform decision making, activity priority and employer engagement. Performance standards and achievements are reported to and monitored by Wirral Council Pension Board three times a year.

Service area managers, supported by Fund IT staff, are responsible in ensuring that staff members have the appropriate level of system access to fulfil their duties; the control of access minimises the risk of accidental loss, errors and unauthorised activity.

### Employers

The Fund is reliant upon the accuracy, completeness and timeliness of data provision for participating employers and any third party agencies they may utilise e.g. payroll providers.

To maintain complete and accurate records there has to be a continual dialogue with participating employers in regards the provision of data. Fund Officers will work with named employer representatives throughout the year to support the general activities of the Fund, clarifying information and data provided. There is an employer responsibility to provide resources to respond to ad-hoc enquiries, but also structured bulk activities such as year-end contributions returns and data reconciliations.

### Administering Authority

Wirral Council as the administering authority provides the computer network infrastructure for the Fund and the supporting procedures and guidance for staff on records management and Information Governance issues; including Data Protection.

The Operations & Information Governance Manager is the link officer between Fund and the corporate functions of the administering authority, in regards Information Governance, Cyber-Security and Records Management.

## 6. Data Review Activities

To ensure compliance with the LGPS regulations and the Pension Regulator Code of Practice, the Fund will undertake the following data related activities:

Review activity	Monitoring Performance	Timescale
The Fund will undertake biannual data reconciliation exercises with all employers to identify discrepancies within member datasets, carrying out a detailed analysis on any data gaps	Regular engagement with employers in regards to outstanding data items, with the production of action plans where required. Where action plans fail and no improvement is evident, the Fund will hold face to face meetings to discuss required actions	Data reconciliation exercises will be carried out <b>January</b> and <b>September</b> with regular ongoing chase of outstanding data
Following year-end contribution return exercise, the Fund will provide employers with a detailed review of errors and data gaps encountered during the process	The Fund will monitor progress against resolution of errors.  Where errors are not resolved within timescales prescribed within the Pension Administration Strategy, employers may be subject to the Fund's escalation policy on charging employers for unsatisfactory performance	Within 30 days of receipt of complete and correct year end contribution return
To continually develop the documentation and engagement plan with employers in regard data provision to the Fund.  Assess appropriateness of specific practitioner training for data review activities, including individual coaching opportunities.	Assess improvements in data quality following revision to documentation and delivery of internal/external training/coaching.	Ongoing

## 7. Data Improvement Plans

Where the Fund identifies poor quality or missing data, it will put in place a data improvement plan to address these issues. The plan will have specific data improvement measures that can be monitored with a defined end date within a reasonable timeframe.

Wirral Council Pension Board has delegated responsibility for the development of a data improvement plan to the Fund's Operations & Information Governance Manager, supported by the Data Compliance & Technical Officer and the Data & Systems Analysts.

In collaboration with lead officers at each employer, individual employer data improvement plans will be developed, supported by biannual data reconciliations. The Fund will report individual performance to employers, identifying any areas for improvement (by either party) and where necessary develop an action plan to address outstanding data.

Progress of data improvement plans will be monitored by Wirral Council Pension Board, and will detail any enactment of the escalation policy in regard unsatisfactory performance by employers, along with any required Fund procedural changes to enhance service delivery or support to employers.

## 8. Third Party Data Services

The Fund will make use of third party data services to improve the quality of its data and also support the administrative function. These are provided by outside organisations as either collaborative ventures (at no or minimal cost) or procured commercially.

### LGPS National Insurance Database & 'Tell Us Once' Service

Administered by South Yorkshire Pension Fund Authority (SYPA) on behalf of the Local Government Association (LGA), the secure National Insurance Database was developed for LGPS administering authorities to share data to prevent the duplicate payment of death grants. This follows changes to Scheme Regulations in 2014, by virtue of which payment of a death grant, in respect of a member with entitlement to multiple membership categories, is restricted to an aggregate payment value in relation to any active or pensioner/deferred membership. When processing the death of a scheme member, officers will procedurally check the LGPS National Insurance Database for the existence of membership at other LGPS Funds.

The secure LGPS National Insurance Database also facilitates the integration of the Funds membership profile into the government 'Tell Us Once' service, as administered by the Department of Work & Pensions (DWP). The 'Tell Us Once' service allows a person registering a death to request that the DWP pass on the deceased's information to other government departments and council services. If the deceased is a member of the Fund, as determined by the LGPS National Insurance Database, an email notification is received informing designated Fund officers that a copy death certificate is available for access on the secure government gateway.

## Tracesmart IQ

Provided commercially by LexisNexis, this web-based tracing service provides officers with an avenue to find the most recent postal address of a member to whom contact has been lost. The loss of contact will occur when a deferred or pensioner member fails to notify the Fund of a change of address.

## National Fraud Initiative (NFI)

Administered by the Cabinet Office, the NFI programme is a biennial exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. As a participant, the Fund receives a report of 'matches' to investigate, to take remedial actions and update records accordingly.

## Mortality Screening Services

Provided commercially, the Fund periodically engages in comparing its deferred and pensioner memberships against the national death register as administered by the General Register Office which is part of Her Majesty's Passport Office.

## 9. Priority Data Areas

To ensure compliance with the LGPS regulations and to effectively administer the scheme, the Fund has identified priority areas of data provision. The Fund's Data Compliance & Technical Officer, supported by the Data & Systems Analysts, is responsible for ensuring review of the following priority areas of data quality and compliance.

Ref	Data Area	Potential Impact	Mitigation	Review Frequency
<b>DA1</b>	Failure to maintain accurate and up to date member records	<p>Inability to ensure accurate payment of benefits within prescribed timescales</p> <p>Potential additional administration and legal costs to correct historical errors</p> <p>Breach of Data Protection Act</p>	<p>Frequent ongoing data reconciliation exercises will highlight gaps and anomalies in Fund records, and also bring to light poor performance of employers regarding notification of new starters, changes and leavers</p> <p>Increased use of 'Electronic Employer Interface Files' with large employers to facilitate uploading directly into systems (no data re-entry)</p>	<p>Biannual exercise to align Fund and employer data, in addition to year end contribution exercise.</p> <p>Ongoing engagement with large scheme employers.</p>
<b>DA2</b>	Failure to identify the misallocation of CARE data to member accounts	Failure of Fund to fulfil its statutory requirement to ensure accurate payment of benefits within prescribed timescales	Continued liaison and development of bespoke automated annual return data linking for large scheme employers, relating to their current payroll system to enable accurate digital import of data	Annually – before commencement of year end contribution exercise
<b>DA3</b>	Data quality control of CARE data received on year end contribution return	<p>Fund systems are updated with CARE data that has not been subject to data quality control checks</p> <p>Impact on annual allowance calculation for members</p>	<p>Continued development of "sanity" checks on pay data submitted</p> <p>Regular revision and improvement of Fund pay tolerance levels</p> <p>Descriptive feedback to employers where anomalies are highlighted</p>	Annually – before commencement of year end contribution exercise



<b>DA4</b>	Verification and authorisation of year end contribution data received from employers	Non verification and authorization of year end contribution data could result in failure to identify fraudulent activity that may have financial consequences	<p>Robust authorisation controls – submissions requires sign off by Section 151/Chief Finance Officer of employer</p> <p>Assessment of pay benchmarked against highest paid officer within the organisation.</p> <p>Regular review of Fund's register of officers authorised to verify year end contribution return</p>	Annually – before commencement of year end contribution exercise
<b>DA5</b>	Processing amendments received to year end contribution return data	Non verification of amendments to year end contribution data could result in failure to identify fraudulent activity that may have financial consequences	Ensure all amendments are verified by the appointed authorised officer and submitted within the specified Fund format	Annually – before commencement of year end contribution exercise
<b>DA6</b>	Failure to identify gaps within member CARE data	Failure of Fund to fulfil its statutory requirement to ensure accurate payment of benefits within prescribed timescales	<p>Continued development of Fund systems to highlight gaps within CARE data</p> <p>Engagement with employers to ensure the timely provision of year end contribution return data</p>	Annually – before commencement of year end contribution exercise
<b>DA7</b>	Failure to hold and transfer member data securely	Breach of Data Protection Act, data lost or compromised	<p>Compliance with Wirral Council Data Protection and IT Policies</p> <p>Electronic transfer of member data between the Fund and employers carried out via secure email server</p>	Ongoing

## 10. Review

The Fund will review this policy document as required to reflect changes in regulations and Fund working practices.

## 11. Monitoring Compliance

Compliance with this policy and related standards and guidance will be monitored as part of the work of the Wirral Council Pension Board and supported by specific programmes of activity by the administering authority auditors.

Fund and employer performance outcomes will be subject to scrutiny by the Pension Regulator, the Local Pension Board and Pensions Committee, as well as both Internal and External Auditors as part of the governance arrangements of the Fund and the LGPS.

## 12. Associated Policy Statements

### Pension Administration Strategy

The aims and objectives of the strategy are to:

- detail requirements for liaison and communication between the Fund and employers
- outline performance expectations for the Fund and employers
- promote good working relationships and improve transparency, efficiency and quality of data
- ensure the fair apportioning of costs across all employers
- provide a good quality, efficient and value for money service to all stakeholders

The draft version, approved for consultation with employers by the Pensions Committee can be found on the Fund website at:

**<http://mpfemployers.org.uk/pdf/draftpas2018.pdf>**

### Governance policy

Wirral Metropolitan Borough Council is the Administering Authority for Merseyside Pension Fund. The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the scheme of delegation and the terms of reference, structure and operational procedures of the delegation and can be found on the Fund website at:

**<http://mpfemployers.org.uk/content/governance-fund>**

**Approved by:** Pensions Committee

[ date of approval ]

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## WIRRAL COUNCIL

### PENSION BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>POOLING CONSULTATION UPDATE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report provides the Board with details of update reports taken to Pensions Committee on 21 March 2017 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 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.

#### 3.0 RELEVANT RISKS

- 3.1 Refer 2.1 above.

#### 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 Fund's 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 notes report detailing the progress of Pooling arrangements.

## **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**

Pension Committee reports of 17.7.17 & 19.9.17

## **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 BOARD

10 OCTOBER 2017

<b>SUBJECT:</b>	<b>WORKING PARTY MINUTES</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 The IMWP minutes and GRWP 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 the GRWP on 06.07.17 and IMWP on 16.06.17, 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 Fund's working parties enable Members and their advisors to consider investment and governance 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 working party 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 27<sup>th</sup> June 2011.

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## **APPENDICES**

Exempt appendix 1, 2

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

## **BRIEFING NOTES HISTORY**

Briefing Note	Date

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>

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