



Local Pensions Board

Date:	Tuesday, 20 March 2018
Time:	1.00 pm
Venue:	G40 Merseytravel, Mann Island

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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 - 8)

To approve the accuracy of the minutes of the meeting held on 10 October, 2017.

3. LGPS UPDATE (Pages 9 - 30)

4. PENSION FUND BUDGET (Pages 31 - 40)

5. TREASURY MANAGEMENT STRATEGY (Pages 41 - 58)

6. DEVELOPMENT & TRAINING PROGRAMME (Pages 59 - 64)

7. LGPS INVESTMENT PERFORMANCE (Pages 65 - 66)

8. POOLING UPDATE (Pages 67 - 76)

9. MANAGEMENT OF CARBON RISK (Pages 77 - 84)

10. BOND REVIEW (Pages 85 - 92)

11. CONTRACTS TIMETABLE (Pages 93 - 98)

- 12. WORKING PARTY MINUTES (Pages 99 - 100)**
- 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. LGPS INVESTMENT PERFORMANCE EXEMPT (Pages 101 - 124)**
- 15. POOLING UPDATE EXEMPT (Pages 125 - 160)**
- 16. MANAGEMENT OF CARBON RISK EXEMPT (Pages 161 - 166)**
- 17. BOND REVIEW EXEMPT (Pages 167 - 172)**
- 18. CONTRACTS TIMETABLE EXEMPT (Pages 173 - 174)**
- 19. ADMINISTRATION KPI REPORT EXEMPT (Pages 175 - 194)**
- 20. WORKING PARTY MINUTES EXEMPT (Pages 195 - 208)**

LOCAL PENSIONS BOARD

Tuesday, 10 October 2017

Present: J Raisin (Chair)
M Hornby P Wiggins
K Beirne R Irvine
D Ridland P Maloney

Apologies G Broadhead

18 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.

19 MINUTES

Resolved – That subject to the deletion of “Councillors” next to attendees names that the accuracy of the Minutes of the Local Pension Board held on 27 June, 2017 be approved.

20 AUDIT FINDINGS REPORT, ANNUAL REPORT & ACCOUNTS

Members gave consideration to a report of the Director of Pensions that presented the Annual Report of Merseyside Pension Fund for 2016/17, which contained the audited statement of accounts, and the Fund's response to the Audit Findings Report from Grant Thornton.

Members of the Board were informed that Grant Thornton had indicated there would be an unqualified opinion; their work had 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.

Grant Thornton's report expressed a positive outcome from their audit of the accounts and referred to the accounts being prepared to a good standard with good supporting working papers. The report also noted that the draft accounts had been prepared and available for audit by 31 March 2017, one month ahead of the statutory deadline, and meeting the revised timetable that would come into effect in 2018.

Resolved – That;

- 1. the report be noted.**
- 2. thanks be offered to Donna Smith, Group Accountant and the team for producing this work within the timescale.**

21 **LGPS UPDATE**

A report of the Managing Director Delivery presented the Board with the LGPS update report along with the Fund's responses to the government consultations detailed within the report that had been discussed at Pension Committee since the last Local Pension Board meeting.

The report updated 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 was attached as Appendix One to the report.

The report also raised awareness of the publication of the 2016 LGPS Annual Report, detailed 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.

Yvonne Caddock, Principal Pension Officer, presented an outline of the report and highlighted that TPR undertook an annual Public Service Governance Survey. The regulator expected all public service schemes to participate in the research to help understand what schemes were doing to improve their standards of governance and administration - so it could focus on the areas which needed more support and education.

The results of the 2016 Governance and Administration survey had recently been published in their 2017 report. The survey generally showed an ongoing improvement in governance but the most commonly identified barrier to improvements in governance and administration for the LGPS was resource constraints.

It was noted that the top priorities for this year were scheme governance, record keeping, internal controls and member communication. The Regulator had confirmed that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers for recalcitrant scheme managers.

The full report could be accessed at:

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

Yvonne Caddock, Principal Pension Office, noted that Board Members would be kept informed of any changes.

Resolved – That the report be noted.

22 **TREASURY MANAGEMENT ANNUAL REPORT**

A report of the Director of Pensions presented a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2016/17 financial year and reported any circumstances of non-compliance with the treasury management strategy and treasury management practices. It had been prepared in accordance with the revised CIPFA Treasury Management Code.

The Treasury Management Annual Report taken to Pensions Committee was attached as an appendix to the report.

Resolved – That the report be noted.

23 **GDPR BRIEFING**

Members gave consideration to a report of the Managing Director Delivery that provided members with a copy of a report taken to September Pensions Committee on the implications of the General Data Protection Regulations for the Fund.

Members were informed that the EU's General Data Protection Regulation (GDPR) was a legal framework with the aim of boosting online privacy rights and strengthening the digital economy in the European Union. The GDPR brought harmonisation by applying the same set of Data Protection rules across the EU.

The changes were in response to how both globalisation and technological change had impacted on how data was collected, stored, shared and transferred since the introduction of the Data Protection Act in 1998.

Guy Hayton, Operations Manager, highlighted the key changes for the Pension Fund under the GDPR and responded to questions from members.

Members were informed that all Fund staff annually undertook an e-learning course entitled "Responsibility for Information" as staff awareness of data protection was a significant part of ensuring ongoing compliance.

With regard to Partnership working to meet GDPR duties and obligations members were informed that Fund officers were 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.

Members were further advised that Fund Officers were 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 was appropriate communications to scheme members for use in advance of May 2018.

Resolved – That the report be noted.

24 **MIFID II OPT UP**

Members of the Board gave consideration to a report of the Director of Pensions that provided details of the implications of MIFID II that had been taken to Pensions Committee and was attached as an appendix to the report.

The report provided members with background information on MIFID II, a European Union Directive that regulated firms who provided services to clients such as the LGPS with a range of financial instruments such as shares, bonds, and units in collective investment schemes which would be coming into effect on 3 January 2018.

It was reported that a major and contentious element in the proposals for MIFID II was the reclassification of local authorities as “retail investors” which would fundamentally change the way in which local authority pension funds conducted investment business with their counterparties in relation to all asset classes. The appendix provided information on the “opt up” process being undertaken in response to this change.

Resolved – That the report be noted.

25 **ISS GUIDANCE UPDATE**

A report of the Managing Director for Delivery informed Members of a High Court ruling that impinged on the guidance issued by the Secretary of State in relation to investment strategy statements.

It was reported that in September last year, the DCLG had issued statutory guidance on preparing and maintaining an investment strategy statement (ISS).

Following a case brought by the Palestine Solidarity Campaign, the High Court had 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 was unlawful.

The reason given was 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 had been held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgment, the inference was that that part of the statutory guidance referred to in paragraph 1 of the judgment was struck out.

The High Court had also been 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 were made. On both matters, the judge had ruled in favour of the Secretary of State.

Peter Wallach, Director of Pensions, informed the Board that this ruling would not affect the Fund’s ISS which had been approved by Pension Committee in March of this year.

Resolved – That the report be noted.

26 **ANNUAL EMPLOYERS CONFERENCE**

A report of the Managing Director for Delivery informed Members of the arrangements for the annual Employers’ Conference to be held on Thursday 30 November 2017.

The 2017 conference would be held at Aintree Racecourse on Thursday 30 November. The event provided a forum for officers, advisors and the Local Pension Board to report to employers and key stakeholders on the progress of the Fund. Further details would be circulated to all Members as soon as arrangements were finalised. Mr J Raisin, Chair of the Board, noted that this would be a useful event that would be attended by The Pension Regulator and urged Board members to attend.

Resolved – That the report be noted.

27 **RECORDS MANAGEMENT POLICY**

A report of the Director of Pensions provided members of the Pension Board with an update of the introduction of a records management and data improvement policy for the Pension Administration section.

Yvonne Caddock, Principal Pension Officer, informed the Board that it provided a transparent framework in regard to the processes and responsibilities in approaching data quality and demonstrated the Fund's commitment to embed proactive and preventative techniques within its business practice - to achieve a continual programme of data improvement.

A draft version of the policy was attached as an appendix to the report for the Board's consideration.

Yvonne Caddock noted that suggested amendments from the Pension Board to the proposed procedures and policy to improve record keeping would be welcome in the next few weeks as reports would be prepared by the end of October before the final draft was presented to the Pension Committee in November 2017

Resolved – That the report be noted.

28 **POOLING UPDATE**

Members gave consideration to a report of the Director of Pensions that 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 appendix to the report, appendix 2, contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members discussed the report and commented that the inclusion of Employee representatives in the governance of the Northern Pool was a positive step.

Resolved – That the report detailing the progress of Pooling arrangements be noted.

29 **WORKING PARTY MINUTES IMWP MINUTES 16/06/17, GRWP MINUTES 06/07/17 (RISK REG)**

A report of the Director of Pensions provided the Pension Board with the IMWP minutes and GRWP minutes that had been 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 06.07.17 and IMWP on 16.06.17, 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).

The Pension Board confirmed that the Risk Register had been received and members had had the opportunity to review it.

Resolved – That the report be noted.

30 **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.

31 **POOLING UPDATE EXEMPT REPORTS**

The appendices to the report on Pooling Update were exempt by virtue of paragraph 3.

32 **ADMINISTRATION KPI EXEMPT REPORT**

The report and appendices on the Administration KPI Exempt Report were exempt by virtue of paragraph 3.

33 **WORKING PARTY MINUTES IMWP MINUTES 16/06/17, GRWP MINUTES 06/07/17 (RISK REG) EXEMPT REPORTS**

The appendices on the IMWP and GRWP Exempt Reports were exempt by virtue of paragraph 3.

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

35 **PENSION ADMINISTRATION STRATEGY CONSULTATION**

The Principal Pension Officer informed the Board that the consultation on the Pension Administration Strategy (PAS) which opened to all participating employers on 3 August 2017 had closed on 2 October 2017 with responses received from a number of employers. Fund Officers had reviewed the feedback and reasonableness of any suggested amendments and made further revisions to the draft PAS.

Resolved – That a synopsis of the feedback received from the employers and Fund responses along with the revised PAS would be

circulated to the Pension Board for comment before presentation to Pensions Committee on 13 November 2017 for ratification and an implementation date of 1 April 2018.

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	LGPS UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

1.1 This report provides Board members with copies of recent LGPS update reports taken to Pensions Committee

2.0 BACKGROUND AND KEY ISSUES

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

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

3.1 There are none arising from this report

4.0 RECOMMENDATION

4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

5.1 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.

REPORT Peter Wallach Director of Pensions
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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

LGPS Update Report November 2017

LGPS Update Report January 2018

WIRRAL COUNCIL
PENSION COMMITTEE

13 NOVEMBER 2017

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

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an overview of the prospective changes affecting the future administration of the LGPS.
- 1.2 A synopsis of the latest legislative reform position is attached as Appendix One.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 There are a number of government initiatives and policy reform activities that have been consulted upon during the last twelve months.
- 2.2 As parliamentary time has been focused on Brexit the timescales for implementation of various reforms has been delayed.
- 2.3 Appendix One provides the latest position on the prospective changes and overriding legislation that will affect the future administration of the LGPS.

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 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

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?
No equality impact assessment is required

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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APPENDIX ONE -Synopsis of Latest Position In Respect of Legislative Reform

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Synopsis of Prospective Changes to LGPS & Overriding Pension Legislation November 2017

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	<p>https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation -</p> <p>https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf -</p>	<p>July Update Published 5 December 2016 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> <p>November Update On 21 August 2017, the Government published its response to the consultation on pension scams, confirming that it intends to legislate for a ban on pension cold calling.</p> <p>The ban will extend to electronic communications, including emails and text messages.</p> <p>It is also the intention in late 2018, to introduce legislation limiting the statutory right to transfer pension benefits and measures to make it more difficult for fraudsters to open pension schemes (likely to be used for scam purposes).</p> <p>The Information Commissioner’s Office will be responsible for enforcing the ban</p>

Organisation	Subject	Link	Comments
HM Treasury	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	<p>July Update 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> <p>November Update Although closed on 20 February 2017, we are still awaiting further comment from Government on how to address the implications of State Pension reform for Guaranteed Minimum Pensions (GMPs) of public servants below State Pension age.</p> <p>It is unclear when such clarification will be forthcoming. It is noteworthy that under all the presented options that the burden of providing indexation on GMPs will now fall on the public service schemes; as the increases will now longer be provided through the Additional State Pension.</p> <p>The proposals are administratively complex and increase cost on all participating employers.</p>

Organisation	Subject	Link	Comments
HM Treasury	Reforms to Public Sector exit payments: response to the consultation	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555304/reforms_to_public_sector_exit_payments_consultation_response.pdf http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf	<p>July Update 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"> 1. recovery of exit payments for high earners who are reemployed - actual regulations expected any time 2. the £95k cap for exit. Employment Enterprise Regulations have commencement regulations effective from 1 February 2017 short consultation possible awaiting further information 3. third tranche on exit payments Government responded to the consultation on reforming exit payments across the Public Sector. <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> <p>November Update Latest understanding is that a further consultation on the exit payment cap and exit payment recovery elements of public sector provisions is expected by the end of November 2017.</p> <p>There is no further update on the third element of the Government's reform package covering the wider rules on exit payment provisions. Thus, we still await detail from DCLG as to what this will mean for the local government sector.</p>

			<p>Due to the delay in the exit cap reforms a standardised approach to calculate strain costs will not be implemented in the short term.</p> <p>The advice of MPF's actuary is to apply a loading to the pension cost factors, increasing employer costs by 5% to reflect the increase in the net present cost of pensions due to the depressed return outlook</p>
<p>Information Commissioner Office</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 18</p>	<p>General Data Protection Regulations (GDPR)</p>	<p>https://ico.org.uk/for-organisations/dataprotection-reform/overview-of-the-gdpr</p>	<p>November Update Comes into effect in May 2018 and replaces the Data Protection Act 1998.</p> <p>Introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.</p> <p>Merseyside Pension Fund is working closely with the LGA in developing project plans, template notifications and policies, together with all other necessary provisions required to successfully comply with GDPR.</p> <p>Officers are also participating in Wirral Council's Information Governance Delivery Group – the group tasked with GDPR compliance for the administering authority.</p>

Organisation	Subject	Link	Comments
DCLG	LGPS Regulations: Draft Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/526538/Consultation_on_Local_Government_Pension_Scheme_Regulations.pdf	<p>July Update 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> <p>November Update There has been no further movement with regard to the introduction of a new Fair Deal into the LGPS since the last update.</p> <p>We still await the further consultation on how the changes to Fair Deal, introduced in 2013, will be applied across the employers in the LGPS (excluding academies for whom the new Fair Deal applied with immediate effect)</p>

Organisation	Subject	Link	Comments
Government Actuaries Department (GAD)	Managing risks in the public service pension schemes	https://www.gov.uk/government/publications/managing-risks-in-public-service-pension-schemes-thoughts-on-measures-and-control-mechanisms	<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> <p>November Update No updates have been issued by GAD since the last committee meeting.</p>
Scheme Advisory Board (SAB)	Academies' review	<p>http://www.lgpsboard.org/index.php/structure-reform/review-of-academies</p> <p>http://www.lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_academies_20170525_v1_1.pdf</p>	<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> <p>November Update SAB in developing options with regard to the plan to convert all schools to academies and what this would mean for LGPS pension funds and host authorities, commissioned PwC to produce a report on "Options for Academies in the LGPS". The report identified and highlighted problems/issues experienced by stakeholders.</p> <p>No recommendations were made in the report, although the potential benefits of new approaches to the management of academies within the LGPS were highlighted.</p> <p>SAB has said that it will continue to gather relevant evidence before developing specific proposals and recommendations for submission to Ministers for their</p>

			consideration. MPF is currently reviewing the way it deals with academies in the Fund, to ensure a consistent approach and clear lines of communication with the academies
Scheme Advisory Board (SAB)	Committees – membership & remit	http://www.lgpsboard.org/index.php/sub-comms/membership-remit	<p>July Update 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.</p> <p>A Working Group has been set-up to consider options.</p> <p>November Update No update since the last committee meeting.</p>
Scheme Advisory Board (SAB)	Local Pension Board Survey	http://www.lgpsboard.org/survey.php	<p>November Update This was launched in May, with a closing date of the end of July 2017 - although this was extended to 29 September due to a lack of responses received.</p> <p>The aim was to assess the effectiveness and compliance of local pension boards. MPF responded to the survey, the findings of which will be reported to SAB in October 2017, although it is still unclear as to whether recommendations will then be made to Ministers.</p>
Scheme Advisory Board (SAB)	Tier 3 employers	http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid	<p>November Update Covers those Fund employers with no tax raising powers or guarantee. SAB is keen to identify the risk to LGPS Funds of default by such employers.</p> <p>There are currently two concurrent phases of work involved – collating data and identification of issues. SAB will then assess the risks to Funds and consider next steps.</p>

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WIRRAL COUNCIL
PENSION COMMITTEE

22 JANUARY 2018

SUBJECT:	LGPS UPDATE [SCHEME PAYS POLICY]
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report reviews Merseyside Pension Fund's current policy concerning the provision of scheme pays for scheme members who breach HMRC's Annual Allowance limit for pension saving growth; thereby incurring a tax charge.
- 1.2 The Fund's current policy was approved by Members at the Pension Committee meeting dated 20 November 2012 (minute 44 refers) and limits the requirement for the Fund to meet member tax charges in circumstances of mandatory scheme pays. It is recommended that this policy is maintained subject to the transitional arrangements detailed in the report.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Under the current HMRC tax regime, individuals have a pension Annual Allowance (AA) which is the maximum amount that the value of retirement savings can increase in a year (6 April to 5 April) without incurring tax charges.
- 2.2 The AA limit was reduced in April 2014 from £50,000 to £40,000. If an individual's annual allowance Pension Growth in any one year (including pension savings outside of the LGPS) is greater than the annual allowance limit, the excess will be subject to the marginal rate of income tax.
- 2.3 Members are most likely to be affected if they have an LGPS pension based on their final salary, and they receive a significant pay rise, or pay a high level of additional voluntary contributions.

Tapered Annual Allowance for Higher Earners

2.4 In the 2016/17 tax year, HMRC amended the AA rules to introduce a tapering effect; such that those members with high levels of income now have a reduced AA.

2.5 This tapering only affects employees who have 'Adjusted Income' in excess of £150,000 per annum.

'Adjusted Income' is defined as pension growth plus their taxable income from other sources. For example, salary, property income, savings income, dividend income, pension income, social security income (where taxable), state pension income.

2.6 The AA for any member with 'Adjusted Income' of £210,000 or above would be reduced to £10,000, and those with income between £150,000 and £210,000 would have their AA reduced by £1 for every £2 of taxable income above £150,000 as detailed in the table below;

Adjusted Income	Annual Allowance
Up to £150,000	£40,000
£150,000 to £210,000	£40,000 - £10,000
Over £210,000	£10,000

Carry Forward of Unused Annual Allowance

2.7 To reduce the likelihood of tax charges, there is provision within legislation for a carry forward rule in respect of unused AA from the previous three years. This means that even if the value of a member's pension savings increases by more than the AA in a year, they may not be liable to the AA tax charge by using previous unused AA.

2.8 To carry forward unused AA from an earlier year you must have been a member of a tax registered pension scheme in that year.

Administration Requirements – Pension Saving Statements

2.9 Where the aggregate of a member's pension saving (in respect of all their arrangements in a given scheme) exceeds the annual allowance, the scheme administrator must provide the member within six months of the end of the tax year (i.e. by 6 October) a pension saving statement showing;

- the members pension growth or pension input amount for the relevant pension input period and the previous three years, if known by the scheme;
- the annual allowance (not the tapered allowance)for the tax year in which the relevant pension input period ends and for the previous three years.

Scheme Pays

2.10 There are two mechanisms that can support members who are subject to tax charges due to the increase in their pension growth:

- Mandatory Scheme Pays, and;
- Voluntary Scheme Pays.

Mandatory Scheme Pays

2.11 Members have a mandatory right under Section 237B of the Finance Act 2004, to notify their scheme administrator that they require the scheme to pay some or all of their AA tax charge, in return for a reduction in accrued pension rights in accordance with guidance issued by the Secretary of State.

2.12 The qualifying conditions to request Mandatory Scheme Pays are as follows:

- HMRC standard AA limit has been exceeded in the pension fund; and
- the AA tax charge exceeds £2,000 and;
- the relevant time limits for making an election have been met.

For the 2016/17 tax year the election must be made by 31 July 2018.

Voluntary Scheme Pays

- 2.13 If the conditions for Mandatory Scheme Pays do not apply, or where the tax charge stems from the tapered AA, or where the nomination is made outside of the time-limit, the member may request the Fund to pay the AA tax charge on a voluntary basis.
- 2.14 The introduction of the Tapered Annual Allowance has resulted in a small minority of the membership base with taxable income of £150,000 or more, potentially facing a maximum annual tax charge of £13,500 as a result of their retirement savings.
- 2.15 If the Fund were to introduce the option of Voluntary Scheme Pays, then the member may request the Pension Fund to pay their tax bill offset against an appropriate reduction in their pension benefits.

The Fund has received a number of such requests from members subject to the tapered AA tax charge.

Joint and Several Liabilities

- 2.16 When a member makes an election requiring the pension scheme to pay the AA charge, the scheme and the member will become jointly liable for the tax charge.

The Fund must pay the tax, but the member will have to report the amount of tax that the scheme will pay on their Self-Assessment Tax Return.

Joint and Several Liability will not apply if the scheme agrees to pay the tax voluntarily and the HMRC cannot require the scheme to make payment of any unpaid tax.

Timeline to Invoke Scheme Pays Process.

- 2.17 If pension growth exceeds the Annual Allowance, the member must submit a Self-Assessment Tax Return to HMRC by 31 January following the end of the previous tax year; stating that there is an AA tax charge and it will be met by scheme pays.
- For the Tax Year 2016/17, the tax payable under Mandatory Scheme Pays must be paid by 14 February 2019.
 - For the Tax Year 2016/17, the tax payable under Voluntary Scheme Pays must be paid by the Fund by 31 January 2018.

2.18 Possible benefit and risks in relation to Voluntary Scheme Pays

Recruitment	Benefit	Risk
Fund & Employers	Employers may consider this could be a bargaining tool in recruiting high level management	
Members	Access to tax Defined Benefit Pension Saving with option to meet future tax liabilities via the scheme	

Recovery	Benefit	Risk
Fund & Employers		<p>The Fund is already compelled to allow scheme pays for excess above Statutory Annual Allowance.</p> <p>Scheme Member can apply at any age and on multiple occasions. It will be many years before fully recovered and if member dies before pension starts no or very little recovery may occur.</p> <p>Although it is a tax on a member, initially it is the Fund that makes the payment.</p>
Members	<p>Reduction in benefits is taken out of gross funds rather than net income if tax paid through self-assessment.</p> <p>Member is allowed a deferment in paying tax with recovery not required until many years and may not be fully recovered.</p>	The reduction in pension may exceed the tax charge due to length of time in receipt of pension.

Cashflow & Liabilities	Benefit	Risk
Fund & Employers	The reduction of a member's Pension entitlement to meet tax charges reduces ongoing pension liabilities and the provision can moderately assist in the risk management of the Fund.	<p>Tax where voluntary scheme pays applies has to be made by 31 January following the relevant tax year which is over a year before that under mandatory scheme pays.</p> <p>Disproportionate demand on senior staff resource to ensure the administrative processes and controls are in place to ensure timely payment of tax failure will incur late payment interest costs.</p>
Members	Pension offsets can be beneficial when assessing Lifetime allowance	

2.19 The Local Government Pensions Committee Secretariat have recently received legal advice from Eversheds, noting that administering authorities in England have a general power of competence under the Localism Act 2011 to agree a Voluntary Scheme Pays approach for their LGPS Fund .

2.20 It should be noted that the introduction of Voluntary Scheme Pays is at the discretion of Pension Committee rather than the individual employers within the Fund.

3.0 RELEVANT RISKS

3.1 The risks to the Fund/ Employers and Members are identified within section 2.18 of the main 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 During the work undertaken to assess the impact of the Annual Allowance during the 2016/17 tax year, it was identified that 0.04% of the membership could potentially be subject to the tapered AA and eligible to request voluntary scheme pays.

8.2 The level of senior officer resource expended at the Fund in respect of these members, when dealing with the associated HMRC tax legislation is disproportionate to the general support provided across the overall employer and membership base.

9.0 LEGAL IMPLICATIONS

- 9.1 It is not a statutory requirement for the Administering Authority to agree to Voluntary Scheme Pays and therefore a determination is required by Pension Committee.

10.0 EQUALITIES IMPLICATIONS

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

No equality impact assessment is required

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 In view of both the financial and administrative implications of the Fund permitting the use of voluntary scheme pays, it is recommended that Committee limit the opportunity to circumstances where administrative difficulties result in the member missing the Mandatory Scheme Pays deadline.

- 13.2 To allow members subject to the tapered Annual Allowance for tax years 2016/17 and 2017/18, to utilise Voluntary Scheme Pays as pension saving have already been accrued.

- 13.3 To inform future retirement planning, the Fund will communicate thereafter that those members subject to the tapered Annual Allowance from 2018/19 cannot request the Fund invoke Voluntary Scheme Pays on their behalf.

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

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WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2018/19
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

1.1 This report provides Board members with a copy of the pension fund budget report recently approved by Pension Committee.

2.0 BACKGROUND AND KEY ISSUES

2.1 Approval for the pension fund budget is sought annually from Pensions Committee.

2.2 The Fund's major expenditure is on investment management fees. These are mostly charged on an 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.

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

3.1 There are none arising from this report.

4.0 RECOMMENDATION

4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

Pension Fund Budget report and appendix

WIRRAL COUNCIL

PENSIONS COMMITTEE 22 JANUARY 2018

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2018/19
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the budget for the financial year 2018/19.
- 1.2 The headline figures are that during the financial year 2018/19, we are estimating that MPF will pay £294m in pensions and receive £230m in contributions from employers and employees. The Fund has a value of £8.5bn at 30 September 2017. The proposed administration costs of £22.0m including £14.2m of investment management charges to external managers represent a cost of £164.10 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs are approximately £105.97 per member or 0.17% of assets under management.
- 1.3 The budget for 2018/19 is higher at £22.0m than £20.9m in 2017/18 primarily due to higher staffing costs following the finalisation and approval of the revised structure, increases to contracted services and consultants fees for investment management selection services, as a number of procurement exercises are planned during the year and increased IT expenditure with the workflow and image migration project continuing during 2018/19.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2018/19 is as follows:

Staffing	Current structure to be fully staffed throughout year at the top of the grade.
Investment management Fees	Estimate based on normal market conditions.
Premises	Agreed as a notional charge based on market rates (MPF owns building).
Transport, Conferences and Subsistence	Estimated requirements for current year.
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements.

Inflation adjustments	CPI 3.0% as at September 2017.
Investment Performance	4% bonds; 8% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2017/18. However, due to the volatility in financial markets and delays in billing from certain third party suppliers it is not possible to predict the outturn with complete accuracy. Therefore some estimates have been used, and it is proposed to report on outturn at the July meeting of Pensions Committee. At present, the outturn is lower than predicted largely due to investment market volatility.
- 2.3 The Fund's major expenditure is on investment management fees. These are mostly charged on an 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 2017/18 the outturn is expected to be lower than the estimate made last year due to market volatility and efficiencies gained through renegotiated fees.
- 2.4 The second highest expenditure is on staffing. The outturn for 2017/18 will be underspent due to assumptions used, vacancies and delays in implementing the staffing restructure. The budget for 2018/19 has been updated to reflect the final approved structure.
- 2.5 The predicted 2017/18 outturn for supplies is lower than estimated largely due to an underspend on costs associated with pooling; this budget has been carried forward to 2018/19.
- 2.6 The 2018/19 budget provision for supplies has also been increased to reflect known increases in services and consultants fees for investment manager selection services, as a number of procurement exercises are planned during the year. IT expenditure costs rise in 2018/19 for system upgrades and the workflow and image migration project continuing during 2018/19.
- 2.6 Third party fees rise in 2018/19 due to an increased budget provision for other hired and contracted services to reflect projected investment legal fees.
- 2.7 For departmental & central support charges, at present the estimates have been left the same as last year, the figure reported to Committee last year was £349,757. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

3.0 RELEVANT RISKS

- 3.1 Last year, the Chair of the CIPFA Pensions Panel wrote to all administering authorities reminding them of their responsibilities regarding the resourcing requirement of LGPS funds. The Fund has recently reviewed its requirements and has updated its Risk Register to reflect identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage

investments. This budget provides adequate resources for these two core functions.

4.0 OTHER OPTIONS CONSIDERED

4.1 The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements have recently been subject to review with further reviews being undertaken on an on-going basis. For all other expenditure there has been a careful review process culminating in a planning meeting at which the Director of Pensions approved the proposals for discretionary expenditure in 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 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment income and employee and employer contributions, the full costs are estimated to be £164.10 per member (including active contributors, deferred and pensioners). The costs per member at Merseyside Pension Fund are competitive with other pension funds of similar size in both the public and private sector particularly when analysed net of investment performance.

8.2 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

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 Members approve the budget for 2018/19. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)
- 13.2 That a further report on the outturn for 2017/18 with finalised estimates in particular for salary overheads and departmental & central support charges for 2018/19 be presented to Pensions Committee Members in July.

14.0 REASON/S FOR RECOMMENDATION/S

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

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APPENDICES

The budget for 2018/19 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

Internal working papers were used in the production of this report.

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee:	17 July 2017
Pension Fund Budget	23 January 2017
	4 July 2016
	25 January 2016
	22 June 2015
	19 January 2015

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Appendix 1

Value of the Fund	£8.5bn	30/09/2017
Investment income Received	£190m	Projected 2018/19
Pensions Paid	£294m	Projected 2018/19
Contributions Received (see note 1)	£230m	Projected 2018/19
Active Contributing members	47,206	31 March 2017
Deferred members	38,368	31 March 2017
Pensioners	48,765	31 March 2017
Total Members	134,339	31 March 2017

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	Budget 2017/18 (£)	Probable Out-Turn 2017/18	Budget 2018/19 (£)
Employees			
Pay, NI and Pension	3,102,337	2,525,355	3,331,558
Training	20,000	11,950	20,000
Other Staffing Costs	265,896	316,280	288,126
	3,388,233	2,853,585	3,639,684
Premises			
Rents	279,886	279,886	247,056
	279,886	279,886	247,056
Transport			
Public Transport Expenses	49,534	35,131	53,733
Car Allowances	1,360	1,007	1,630
	50,894	36,138	55,363

Supplies

Furniture and Office Equipment	14,000	12,550	14,000
Printing and Stationery	47,000	17,229	32,000
Computer Development and Hardware	507,500	517,351	643,000
Postages and Telephones	106,250	73,016	97,250
External Audit	41,000	41,000	41,000
Services and Consultants Fees	998,767	742,910	1,588,350
Conferences and Subsistence	36,499	25,830	47,893
Subscriptions	143,139	136,220	147,360
Other	61,000	53,084	65,835
	1,955,155	1,619,190	2,676,688

Third Party

Medical Fees	5,500	2,356	3,500
Bank Charges	20,000	13,352	20,000
Investment Management Fees	14,130,828	13,034,169	14,235,600
Custodian Fees	260,000	154,803	260,000
Actuarial Fees	280,000	280,000	280,000
Other Hired and Contracted Services	144,755	120,112	277,033
	14,841,083	13,604,792	15,076,133

Departmental & Central Support Charges

	349,757	349,757	349,757
	349,757	349,757	349,757

Total Expenditure

	20,865,008	18,743,348	22,044,681
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Note 1 The estimated contributions for 2018/19 are lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2016 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions during 2017/18, with the subsequent 2 years contributions being lower to account for the upfront payments.

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	TREASURY MANAGEMENT POLICY
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

1.1 This report provides Board members with a copy of the Treasury Management Policy recently taken to Pensions Committee.

2.0 BACKGROUND AND KEY ISSUES

2.1 The annual approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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

3.1 There are none arising from this report.

4.0 RECOMMENDATION

4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

5.1 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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SUBJECT HISTORY

Reports/notes	Date
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APPENDIX

Treasury Management Policy 2018/19

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	TREASURY MANAGEMENT POLICY
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request that Members approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2018/19.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy were last approved by the Pensions Committee on 23 January 2017.

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

2.3 The policy statement is attached as Appendix 1 to this report. There are no significant changes to the policy followed for 2017/18.

2.4 Plan and Strategy

- MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.
- The Fund will run minimal cash balances to pay pensions and meet other obligations. The core position is 0% of Fund assets following the change to the strategic asset allocation approved on 21 March 2017.
- The main aims when managing liquid resources are: the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows; an optimal return on investments commensurate with proper levels of security and liquidity.

- The UK Bank Rate has increased from 0.25% to 0.50%, and is anticipated to remain at low levels throughout 2018/19. Short-term money market rates are likely to remain at low levels for an extended period which will have an impact on investment income.
- For MPF the achievement of high returns from treasury activity is of secondary importance compared with the need to limit exposure of funds to the risk of loss.
- The maximum maturity for any single treasury management investment is 1 year.
- Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support. The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts.

3.0 RELEVANT RISKS

- 3.1 The treasury management policy statement is concerned mainly with the mitigation of risks.

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 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 There are no implications 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 Members approve the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2018/19.

14.0 REASON/S FOR RECOMMENDATION/S

- 14.1 The approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Investment Strategy Statement on 21 March 2017.

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APPENDICES

The Treasury Management Policy Statement 2018/19 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

CIPFA Treasury Management Code of Practice and Guidance Notes.

SUBJECT HISTORY

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Pensions Committee – Treasury Management Annual Report	17 July 2017
Pensions Committee – Treasury Management Policy and Strategy	23 January 2017
Pensions Committee – Treasury Management Annual Report	4 July 2016
Pensions Committee – Treasury Management Policy and Strategy	25 January 2016
Pensions Committee – Treasury Management Annual Report	22 June 2015
Pensions Committee – Treasury Management Policy and Strategy	19 January 2015

MERSEYSIDE PENSION FUND TREASURY MANAGEMENT POLICY STATEMENT

1 INTRODUCTION

- 1.1 Merseyside Pension Fund adopts the key principles of 'CIPFA's Treasury Management in the Public Services: Code of Practice' (the Code), as described in Section 4 of that Code.
- 1.2 Accordingly the Fund will create and maintain, as the cornerstones for effective treasury management:
 - This treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which this organisation will seek to achieve these policies and objectives, and prescribing how it will manage and control these activities.

2 DELEGATION

- 2.1 Pensions Committee will receive reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of each financial year and an annual report after its close. The Investment Monitoring Working Party (IMWP) will receive interim reports on treasury management.
- 2.2 Pensions Committee is responsible for the implementation and regular monitoring of its treasury management policies and practices and will delegate execution and administration of treasury management decisions to the Director of Pensions who will act in accordance with this policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 2.3 The IMWP is responsible for ensuring effective scrutiny of the treasury management strategy, policies and performance.

3 DEFINITION

- 3.1 Treasury management activities are defined as: the management of the Fund's 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.
- 3.2 The Fund regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Fund.

- 3.3 The Fund acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

TREASURY MANAGEMENT PRACTICES (TMPs)

4 TMP 1 RISK MANAGEMENT

- 4.1 The Fund regards a key objective of its treasury management activities to be the security of the principals sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments.
- 4.2 The Director of Pensions will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Fund's objectives.
- 4.3 The Fund will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 and listed in the schedule (4.1, 4.2) to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.
- 4.4 The Fund will ensure that it has adequate though not excessive cash resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business objectives.
- 4.5 The Fund will manage its exposure to interest rates with a view to securing its interest revenue as far as is possible within cash flow constraints and by the prudent use of permissible instruments.
- 4.6 The Fund will achieve these objectives by the prudent use of its approved investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level and structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.
- 4.7 It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact.
- 4.8 The Fund will keep under review the sensitivity of its treasury activities to inflation, and will seek to manage the risk accordingly in the context of the whole Fund's inflation exposures.

- 4.9 The Fund will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its counterparty list it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.
- 4.10 The Fund recognises that future legislative or regulatory changes may impact on its treasury management activities and so far as it is reasonably able to do so will seek to minimise the risk of these impacting adversely on the organisation.
- 4.11 The Fund will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
- 4.12 The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

5 TMP 2 Performance Measurement

- 5.1 The Fund is committed to the pursuit of value for money in its treasury management activities. Accordingly the treasury management will be the subject of ongoing analysis of the value it adds. It will be the subject of regular examinations of alternative methods of service delivery and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule (2.1) to this document.

6 TMP 3 Decision Making and analysis

- 6.1 The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching these decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule (3.1, 3.2, 3.3, 3.4) to this document.

7 TMP 4 Approved Instruments, methods and techniques

- 7.1 The Fund will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule (4.1, 4.2) to this document.

8 TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

- 8.1 The Fund considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.
- 8.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 8.3 If and when the Fund intends, as a result of a lack of resources or other circumstances to depart from these principles, the “responsible officer” will ensure that the reasons are properly reported and the implications properly considered and evaluated.
- 8.4 The Director of Pensions is the responsible officer. The responsible officer shall ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule 5 to this document.
- 8.5 The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 8.6 The delegations to the responsible officer in respect of treasury management are set out in the schedule (5) to this document. The responsible officer will fulfil all such responsibilities in accordance with this policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

9 TMP 6 Reporting Requirements and Management Information Requirements

- 9.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 9.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

- 9.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.
- 9.4 The Fund Operating Group (FOG) will receive interim reports on treasury management, with significant issues reported to IMWP.

10 TMP 7 Budgeting, accounting and audit arrangements

- 10.1 The budget for the treasury management function will be included as part of the budget for the Fund which is submitted to Pensions Committee on an annual basis.
- 10.2 The Fund will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

11 TMP 8 Cash and cash flow management

- 11.1 All monies in the hands of the Fund will be under the control of the Director of Pensions and will be aggregated for cash flow and investment purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule (8.1, 8.2) to this document.

12 TMP 9 Money Laundering

- 12.1 The Fund is alert to the possibility that it may become subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of Counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

13 TMP 10 Training and Qualifications

- 13.1 The Fund recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer shall recommend and implement the necessary arrangements. The present arrangements are set out in the schedule (5.6) to this document.

- 13.2 The responsible officer shall ensure that Pension Committee Members tasked with Pension Fund responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

14 TMP 11 Use of external service providers

- 14.1 The Fund recognises that responsibility for treasury management decisions remains with the Fund at all times. The Fund recognises there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been subjected to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 14.2 The Fund will ensure, where feasible and necessary that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Pensions. Details of the current arrangements are set out in the schedule (9.1, 9.2) to this document.

15 TMP 12 Corporate Governance

- 15.1 The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 15.2 The Fund has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management and the responsible officer shall monitor and, if and when necessary, report upon the effectiveness of these arrangements.

MERSEYSIDE PENSION FUND:

SCHEDULE TO TREASURY MANAGEMENT POLICY

SCHEDULE 1: RISK MANAGEMENT

- 1.1 The Fund has the following range of approved maximum limits for counterparties subject to meeting the high credit criteria determined by the Fund

CATEGORY	LIMIT Per Institution/Group
Fund's Bank	£50m
Approved Bank	£20m
Approved Building Societies	£15m
All Local Authorities	No limit
Money Market Funds with a Constant Net Asset value	£30m
Fund's Custodian (Money Market Fund) (Internal and External Managers guideline)	£100m*
Fund's Custodian (Money Market Fund)	£50m

**All funds deposited with the Custodian do not form part of the Treasury Management team's decision-making, some funds represent cash with fund managers awaiting investment or cash collateral. Cash left by internal and external managers is subject to their market calls. Subject to the restrictions within their individual Investment Management Agreements, the aggregate of their deposits could potentially exceed the £100m guideline in certain situations. The cash with the custodian is held within a money market fund and the risk of default is diversified across a wide number of names.*

At the time of placing a deposit, a maximum country limit of 10% of the cash portfolio in any single jurisdiction outside the UK will be maintained.

- 1.2 Under exceptional circumstances e.g. transitional arrangements on appointment of new Investment Managers, these limits may be exceeded for a limited period with the prior written approval of the Director of Pensions and Fund Operating Group (FOG). Such instances will be reported to the following meeting of the IMWP.
- 1.3 The Fund and the administering Authority (Wirral Council) and its advisors, Arlingclose Ltd, select financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns)
 - Credit Default Swaps (where quoted)
 - Economic fundamentals (for example Net Debt as a percentage of GDP)
 - Sovereign support mechanisms
 - Share Prices
 - Corporate developments, news, articles, markets sentiment and momentum
 - Subjective overlay – or, put more simply, common sense.
 - Any institution can be suspended or removed should any of the factors identified above give rise to concern.
- 1.4 It remains the Fund's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.
- 1.5 The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts
- 1.6 The Fund requires liquid resources to meet pension payments, investment commitments and administrative expenses. The cash flows from realisation and purchase of investments can be large and concentrated and the Fund needs to maintain facilities and resources to meet these. On days when there is a significant transition of assets between asset managers, appropriate arrangements are made with the Fund's bankers regarding the timings of the receipt and payments of cash flows (day light exposure).
- 1.7 The Fund's cash flows for dealing with members is negative with outflows to pensioners more than income from contributions. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate and daily cashflows and regular reporting is essential.
- 1.8 It will manage its exposure to fluctuations in exchange rates. In general, the Fund will only hold foreign currencies to fund pending investment transactions thus limiting the exposure of treasury management activities to fluctuations in exchange rates so as to minimise any detrimental impact.

SCHEDULE 2:

PERFORMANCE MEASUREMENT

- 2.1 The performance of the Fund's investments is independently measured by Northern Trust. The performance of cash is included as part of this process and is benchmarked against an appropriate inter-bank rate. This performance measurement is subject to scrutiny by Pensions Committee and IMWP.
- 2.2 The costs of investment management generally including treasury management expenses are separately accounted for in the Annual Statement of Accounts. Comparisons are made between internal and external fund management costs.

SCHEDULE 3: DECISION MAKING AND ANALYSIS

- 3.1 Decision-making is delegated as indicated in the management arrangements set out in schedule 5. Day to day decisions are constrained by the risk controls set out in the other schedules such as approved instruments and counterparties etc.
- 3.2 Tactical decision making by officers will seek to use information from brokers to meet cash flows whilst gaining maximum return within risk constraints. Officers will have access to up to date market information.
- 3.3 Strategic decision making by officers and members will seek to set in place a plan that meets the needs of the Pension Fund in relation to its overall investment plan. The external advisers to the Fund (actuary and independent advisers) will help to ensure that decisions are well informed.
- 3.4 A risk assessment form will be completed for each treasury management transaction (excluding cash at bank), detailing the circumstances at the time the decision is made and providing evidence of the issues considered.

SCHEDULE 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- 4.1 The Fund will use the following instruments for its internally managed treasury management activities. The Fund does not use derivatives for risk control associated with the treasury management function but may hold derivatives for risk control within the overall portfolio and as investments (these may be held by internal and external managers)
 - AAA rated money market funds with a constant Net Asset Value
 - Call funds
 - Fixed term deposits with counterparties
 - Forward Fixed term deposits with counterparties
 - Structured Fixed term deposits with counterparties (See Note 1)
 - Cash at bank (Lloyds)

Note 1: these are effectively deposits which give MPF or deposit taker the option to cancel agreement or renegotiate duration/interest rate of the deposit at fixed periods agreed at commencement of the deposit. These products allow the internal team the opportunity to gain additional yield if their view on interest rates is correct, as the counterparty will have a contrarian view on either the direction or speed of interest rate changes.

- 4.2 The Fund will permit external fund managers to use all instruments permitted under the Investment Manager Agreement.

SCHEDULE 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 The structure for the treasury management functions is as follows:

Pensions Committee

Oversees all aspects of Merseyside Pension Fund on behalf of Wirral Council and the other admitted bodies. Reviews investment strategy and overall administration of the Fund.

Investment Monitoring Working Party (IMWP)

Makes recommendations to Pensions Committee following consultation with in-house managers and external advisers.

Director of Pensions

Responsibilities as set out in twelve Treasury Management Practices.

Fund Operating Group (FOG)

Includes reviewing the day to day operation of the investments and accountancy function.

Head of Finance & Risk

Responsible for team that undertakes treasury management activities.

- 5.2 The day to day transactions for treasury management are executed by the treasury management team overseen by the Fund Accountant(s).
- 5.3 The transmission of funds is carried out by the settlements team through electronic banking system and the recording of transactions is monitored by the Senior Fund Accountant ensuring an adequate separation of duties in the system.
- 5.4 The physical authorisation of the release of payments from the bank account is made by the Fund's authorised signatories as approved by Pensions Committee.
- 5.5 There are sufficient staff employed in the process to cover absences and maintain a separation of duties; the duties of staff are outlined in their job descriptions.

- 5.6 Staff currently involved in the system have an adequate level of relevant qualifications. Further training, as required, is made available as part of ongoing staff development:
- Director of Pensions FCSI, ACIB
 - Head of Finance & Risk CPFA
 - Senior Fund Accountant CIMA
 - Fund Accountant (Compliance) AAT
 - Fund Accountant (Operations) CPFA, AAT
 - Settlements Officer AAT
 - Valuations Officer AAT
 - Investment Officer (this post is currently vacant)
- 5.7 Dealing arrangements will be detailed within application forms (where applicable) and approved by an authorised signatory.
- 5.8 The Fund's policy is not to tape treasury management conversations, although faxed or emailed confirmation is required of the deal from the broker or directly from the counterparty (if non-standard) before the payment is released.
- 5.9 Treasury management facilities are set up with the approval of at least one of the Fund's authorised signatories.
- 5.10 Treasury management facilities provided on the internet will be agreed with the Director of Pensions and will be scrutinised by the Compliance Section to ensure all necessary controls are in place.

**SCHEDULE 6:
REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION
ARRANGEMENTS**

- 6.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, including budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 6.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.
- 6.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.
- 6.4 The Fund Operating Group will receive interim reports on treasury management, with significant issues reported to IMWP.

**SCHEDULE 7:
BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 7.1 The Fund will ensure that its auditors and those charged with regulatory review have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule (10.1) to this document.

**SCHEDULE 8:
CASH FLOW**

- 8.1 Given the unpredictable nature of cash flows in investment management and in the payment of lump sum benefits, the Fund is not able to forecast cash flows precisely. The Fund has designed its cash portfolio to meet the principal material predictable cash flows i.e. pension pay days, and retains a sufficient level of liquidity to cover other calls on cash.
- 8.2 The investments office maintains cash flow statements on a monthly basis updated daily for predictable cash flows and uses this as a tool to assist the treasury management function.

**SCHEDULE 9:
USE OF EXTERNAL PROVIDERS**

- 9.1 The main providers of services to the Fund are money market brokers. As the Fund does not borrow funds it does not pay commission to the brokers. The performance of brokers is under regular review by staff.
- 9.2 The Fund's main clearing bank contract is the subject of regular tendering exercises.

**SCHEDULE 10:
CORPORATE GOVERNANCE AUDIT AND COMPLIANCE**

- 10.1 The Fund is administered by Wirral Council and is subject to its corporate governance arrangements including regular internal audit and annual external audit. The treasury management function is examined by both of these audits regularly as a high priority area. Officers shall ensure that all documentation listed below is made available to auditors:
- Internal policies
 - Internal records of deals
 - Counterparty confirmations

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	DEVELOPMENT & TRAINING
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

1.1 This report provides Board members with a copy of the development programme proposed for Pension Committee members. A number of these opportunities are also available to Board members.

2.0 BACKGROUND AND KEY ISSUES

2.1 In accordance with the Pensions Act 2004 every member of the Wirral Pension Board must be conversant with key areas of knowledge and understanding of the law relating to pensions with particular reference to:

- Background and understanding of the legislative framework of the LGPS:
- General pension legislation applicable to the LGPS;
- Role and responsibilities of the Local Pension Board;
- Role and responsibilities of the Administering Authority;
- Funding and investment;
- Role and responsibilities of Scheme Employers;
- Tax and contracting out;
- Role of advisors and key persons;
- Key bodies connected to the LGPS.

2.2 Pension Board members are expected to complete induction training within the first three months of their appointment. This consists of an online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).

2.3 Board members will be invited to events as they arise.

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

3.1 There are none arising from this report. A budget for training has been allocated to the Board.

4.0 RECOMMENDATION

4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

5.1 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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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

Members' Development

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	MEMBERS' DEVELOPMENT 2018
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide Members with an outline of the proposed programme for member development in 2018.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The CIPFA Pensions Panel has developed a technical knowledge and skills framework for the Local Government Pension Scheme. The framework was adopted by Pensions Committee in 2010 as demonstrating best practice and enables the Fund to determine that it has the appropriate mix of knowledge and skills necessary to discharge its governance requirements. It also assists Members in planning their training and development needs.
- 2.2 An outline training programme is attached as an appendix to this report. It is comprised of a series of internal and external training events throughout the year. Individual papers will be brought to consider and approve attendance at each event and, if officers become aware of other appropriate events, Committee will be informed.
- 2.3 When relevant, formal training sessions are included in Investment Monitoring Working Parties. Additionally, presentations by external professional organisations and the deliberative nature of all the working parties mean that attendance is regarded as an important element of Member development.
- 2.4 The Local Government Pensions Committee-organised 'Fundamentals' course is considered essential for all members to complete. It provides a comprehensive overview of the LGPS and the 'trustee' role carried out by those serving on a pension committee/panel. The course takes place over three days (during October – December), at multiple dates and in multiple locations (Cardiff, Leeds & London). While considered essential for new members, longer serving members of Pensions Committee may also benefit from refresher training.

- 2.7 It is a statutory requirement that the Fund's annual report includes detailed information on training events offered and attended by elected members. A register of Members' attendance at training and development events is kept and reviewed annually by the Governance & Risk Working Party.

3.0 RELEVANT RISKS

- 3.1 Failure to maintain an appropriate level of knowledge and skills, commensurate with that thought appropriate for those acting in a trustee-like role in the LGPS, may impair effective decision-making. Suitable and effective training and development activity should assist in mitigating this risk.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Based on an ongoing assessment of training needs, there may be the option of reverting to stand-alone training and development events.

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 None

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 Provision for Member training and development is included in the Fund's annual operating budget.

9.0 LEGAL IMPLICATIONS

- 9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

- 11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note and approve the proposed training and development plan for 2018.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The requirement for good governance in the LGPS to be underpinned by informed decision-making, combined with the increasing complexity of financial markets and investment strategies, makes ongoing training and development an essential element of Members' responsibilities.

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APPENDICES

Appendix 1- Development Programme

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
Pensions Committee	January 2017
Pensions Committee	January 2016
Pensions Committee	January 2015

APPENDIX 1

<u>MONTH (2018)</u>	<u>EVENT</u>	<u>REPRESENTATION*</u>
1-2 March	LGC Investment Summit, Chester	All Members
7 - 9 March	PLSA Investment Conference, Edinburgh	Chair
8 March	IMWP – Member development session	All Members
21 - 23 May	PLSA Local Authority Conference, Cotswolds	Party Spokespersons
June	LGPC Annual Trustee Conference	All Members
June	PIRC Corporate Governance Conference	Chair
July	CIPFA Conference	Chair
5-7 September	LGC Investment Seminar, Celtic Manor	Party Spokespersons
13 September	IMWP – Member development session	All Members
October	Local Government Pension Investment Forum	Party Spokespersons
17-19 October	PLSA Annual Conference, Liverpool	All Members
November	Annual Employers Conference, Aintree	All Members
October – December	Fundamentals training days; multiple dates & locations	All Members
December	LAPFF Annual Conference, Bournemouth	Party Spokespersons

**Reflects previous attendance*

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	LGPS INVESTMENT PERFORMANCE
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

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

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Merseyside Pension Fund participates in the Local Authority Pension Performance Analytics service which is being administered by PIRC since State Street withdrew from offering this service.
- 2.2 The presentation, attached as an appendix, provides an overview of the LGPS universe and information on risk and returns over the short, medium and long term. A verbal report will be made at the Board meeting.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

5.1 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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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

EXEMPT: Presentation: Local Authority Pension Performance Analytics

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	POOLING UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with copies of recent Pooling update reports taken to Pensions Committee.
- 1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Pooling update is a standing item on the Pensions Committee agenda

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

- 3.1 There are none arising from this report

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

REPORT
AUTHOR

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

Pooling Update Report November 2017

Pooling Update Report January 2018

WIRRAL COUNCIL

PENSIONS COMMITTEE

13 NOVEMBER 2017

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

1.0 EXECUTIVE SUMMARY

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

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

2.0 BACKGROUND AND KEY ISSUES

2.1 DCLG requested that all Pools provide a report on progress as at 30 September 2017. A copy of the Northern Pool's report is attached in the accompanying appendix.

2.2 Draft terms of reference considered at the Northern Pool Shadow Joint Committee meeting on 12 September 2017 are attached in the accompanying appendix.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

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

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

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

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APPENDICES

Submission to DCLG
Draft terms of reference

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

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

1.0 EXECUTIVE SUMMARY

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

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

2.0 BACKGROUND AND KEY ISSUES

2.1 Following the update to Committee in November providing details of the progress report to DCLG as at 30 September 2017, the Northern Pool has yet to receive a response from DCLG.

2.2 A meeting of the Northern Pool Shadow Joint Committee took place on 5 December 2017. The principal ongoing work streams for the Northern Pool are set out below and are progressing well.

- Developing a vehicle to make private equity investments on a collective basis. The governance of this vehicle is expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of a FCA regulated custodian for the pool to ensure all listed assets of the pool (i.e. internally and externally managed equities and bonds) are held within a single permanent FCA regulated entity. The custodian will also manage the calls and distributions in the Northern Pool private equity vehicle.
- Work is underway to procure an FCA regulated operator for the GLIL infrastructure vehicle. This would allow other pools to join. GLIL currently has commitments of £1.3bn to direct infrastructure in the UK, with investments of almost £600m made to date.
- The democratic services functions of each of the administering authorities are progressing with the creation of the Pool joint committee, with

Tameside MBC acting as lead authority. This joint committee will oversee the Pool and provide a democratic link back to the individual funds. The legal agreements setting out the governance framework of the Pool are not yet finalised as work is being undertaken to ensure that they are aligned with the governance framework of the private equity vehicle.

- Review of progress with benchmarking of performance and costs for the Pool and its constituents.

2.3 LGPS POOLING NATIONAL DEVELOPMENTS

- There are 8 pools across the LGPS, which are made up as follows:
- Northern Pool
- London CIV (the 33 London Boroughs)
- South West Funds + Environment Agency (“Brunel Pensions Partnership”)
- ‘ACCESS’ (Most of the South-East County Council funds)
- Central Pool (most of the ‘Midlands’ LGPS funds)
- ‘Border to Coast’ (The remaining northern funds + a small number of others)
- Wales
- LPP (‘the Local Pensions Partnership’ – LPFA/Lancashire + Berkshire)

2.3.1 The eight pools are at different stages of development. Two of the pools, the London CIV and LPP, are currently operational and are in the process of transitioning assets into the pools. The London CIV has not yet pooled any alternative assets.

2.3.2 All pools are required to be fully operational by 1 April 2018, which is a very challenging timescale. The Secretary of State has been clear that all assets should be invested via the pool unless there is a ‘strong value for money case for delay’.

2.3.3 With the exception of the Northern Pool and LPP, all of the other pools have at least 8 participating funds and therefore require their mandates for listed assets to be amalgamated in order to meet the scale criteria and for collective investments to be managed by a FCA regulated operating company in order to avoid being deemed to be operating an unauthorised collective investment scheme.

2.3.4 The ACCESS and Wales pools are in the process of procuring an FCA regulated operator for their pools. The other pools under development are typically ‘building’ their own operator.

2.3.5 During November it was formally announced that Berkshire Pension Fund would be joining LPP with effect from 1 April 2018.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

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

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

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

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	CARBON RISK MANAGEMENT
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a copy of a report on proposals for the management of climate risk recently taken to Pensions Committee.
- 1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Pensions Committee has previously approved the development of a Climate Risk Strategy for MPF, based on climate-related investment beliefs: that climate change is a systemic risk and thus, a material long-term financial risk for investors who must meet long-term obligations.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

REPORT

Peter Wallach

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

EXEMPT: Presentation: Local Authority Pension Performance Analytics

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	CLIMATE RISK MANAGEMENT
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR FOR CORPORATE RESOURCES & REFORM
KEY DECISION?	NO

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the proposal to move into low carbon passive equities as part of implementing the climate risk management policy for Merseyside Pension Fund (MPF).
- 1.2 Appendix 1 to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 Pensions Committee has previously approved the development of a Climate Risk Strategy for MPF, based on climate-related investment beliefs: that climate change is a systemic risk and thus, a material long-term financial risk for investors who must meet long-term obligations. In March 2017, Members approved the Fund's Investment Strategy Statement, containing the following pertinent investment beliefs:

- *There exists an equity risk premium, namely that investors are rewarded over the longer term for making investments in equities or other risk assets;*
- *Environmental, social and governance (ESG) factors will materially affect investment performance over the long term*
- *MPF can select optimal investment strategies that integrate ESG information to drive the construction and adjustment of investment portfolios.*

2.2 Members have requested that plans be brought forward for measuring and reducing the carbon intensity of existing portfolios as part of pursuing a decarbonisation goal. The proposal contained in this report is a step toward that goal.

2.3 Passive Equities

As at 31st December 2017, MPF's assets were valued at £8.6 billion, of which 13% comprised passive equities (managed to track the returns produced by stock-market indices):

£468 million	UK equities (tracking FTSE All Share index)
£663 million	US equities (tracking FTSE North America index)

These passive equities portfolios are managed in low cost pooled investment vehicles (MPF's assets are co-mingled with those of other investors) by State Street Global Advisers and they track standard market capitalisation-weighted indices. They make up one quarter of MPF's overall allocation to equities. Their purpose as part of MPF's investment strategy is to provide a relatively low risk exposure to the return available from equity markets, or the 'equity risk premium'.

- 2.4 MPF is exploring alternative ways to access this risk premium, due to recognised inefficiencies in market cap-weighted indices. In terms of climate risk, the indices tracked in the passive equities portfolio are agnostic to climate risk and contain high concentrations in stocks and sectors that are vulnerable to climate risk. It is proposed that, as part of a restructuring of the passive equities portfolio: one third is allocated to a low carbon index-tracking solution; that the low carbon index selected has a reduced carbon foot-print (using measures of carbon emissions intensity and fossil fuel reserves) relative to current indices used; and that it remains capable of replicating the return of its 'parent index' within an acceptable range of tolerance.

The objective will be to provide a return in line with the market, on a more climate-resilient basis (carbon reduction acting as a hedge against climate risk) with some potential for long-term outperformance as the transition to a low carbon economy gains momentum. However, it should be noted that some increase in performance volatility may be experienced in the short-term (for example, in the event of upward movements in oil & gas prices).

- 2.5 It is likely that an increase in costs would be associated with implementing this proposal, due to the relative lack of scale of assets invested in such strategies and the licensing costs associated with specialist index benchmarks. However, any cost increase would be from a very low base and could be off-set in time by the risk reduction benefits outlined. The past 18 months has seen the launch of notable institutional-scale low carbon index funds by leading asset management groups, which begins to address the scaling issue. MPF has means to efficiently procure suitable support for implementing this proposal, via the National LGPS Frameworks initiative.
- 2.6 An exercise to measure MPF's carbon foot-print is underway and it is expected that the findings will be reported to Pensions Committee in March 2018 (and subsequently included in the Fund's public reporting). This will provide further

means to calibrate the amount of risk reduction to be sought and illuminate the contribution of restructuring the passive equities portfolio toward this goal.

3.0 RELEVANT RISKS

3.1 The Financial Stability Board-backed Taskforce on Climate-Related Financial Disclosures (TCFD) has classified climate risks into two major categories – transition risks and physical risks. Transition risks relate to the impacts (including costs) of public policy, legal, technological and market changes that will be required to mitigate and adapt to climate change. Physical risk relates to physical impacts of climate change (such as those arising from extreme weather events or changes in rainfall patterns). The proposal in this paper addresses primarily transition risk.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 The ongoing development of the climate risk strategy takes place under the auspices of MPF's Investment Monitoring Working Party and has included participation from Members, Officers, TU representatives and external Fund Advisers.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 Pensions Committee has previously approved the planning of a reduction in the climate risk exposure of the passive equities portfolio of MPF.

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 may be an increase in investment management costs for the Merseyside Pension Fund 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 The proposal will reduce the investment portfolio carbon foot-print of Merseyside Pension Fund.

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 Members approve the proposal to allocate one-third of MPF's passive equities to a low carbon index.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The recommendation will progress the implementation of a decarbonisation plan that is in line with agreed policies on addressing climate risk with respect to the Merseyside Pension Fund.

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APPENDICES

1. *Greenhouse Gas Risk in the Merseyside Pension Fund Portfolio*, report of Rohan Worrall (Independent Adviser to MPF & member of the IMWP)
2. *Climate Change Investment Policy Framework*, Local Authority Pension Fund Forum (LAPFF), November 2017

BACKGROUND PAPERS/REFERENCE MATERIAL

MPF's Climate Risk Strategy Statement:

<https://mpfmembers.org.uk/content/climate-change>

SUBJECT HISTORY (last 3 years)

	Date
Pensions Committee: Climate Risk Options	March 2016
Pensions Committee: Climate Risk	November 2015

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WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR COMMUNITY ADMISSION BODIES WITH BONDS OR GUARANTORS
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a copy of the report to Pension Committee on the annual review of potential unfunded liabilities for admission bodies .

2.0 BACKGROUND AND KEY ISSUES

- 2.1 In accordance with the Committee decision on 22 March 2000 (Minute 52 refers), officers were asked to specifically monitor the potential unfunded liabilities in respect of the premature closure of admission bodies.

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

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
AUTHOR**

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

Report and EXEMPT appendices 2-4

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR COMMUNITY ADMISSION BODIES WITH BONDS OR GUARANTORS
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION	

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs members on the annual review of potential unfunded liabilities for admission bodies. This work is undertaken by Mercer the Fund Actuary, following the actuarial review as at 31 March 2017.
- 1.2 The appendix to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 In accordance with the Committee decision on 22 March 2000 (Minute 52 refers), officers were asked to specifically monitor the potential unfunded liabilities in respect of the premature closure of admission bodies.

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

- 2.2 The results of the admission bodies previous liability review, as at 31 March 2015, was considered by the Committee on 14 September 2015 (Minute 27 refers).
- 2.3 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2017 are attached within the exempt appendix.

2.4 The baseline of the calculations were aligned to the 2016 valuation funding position, which has been approximately rolled forward to 31 March 2017; these allow for contributions paid (versus costs of benefits accrued), cashflow information since the valuation date and estimated investment returns on the Fund's assets.

An allowance has also been included to reflect the change in the real return outlook since the valuation date which is used to determine the liabilities on a termination basis.

2.5 The funding positions presented for each employer do not allow for membership changes since the valuation and therefore are approximate, although the assessments provide a reasonable basis to determine the level of risk exposure if an employer exits the Fund without a structured de-risking plan.

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

2.7 In accordance with the Funding Strategy Statement, the assessment of the employers potential exit debt has been based on a more cautious corporate bond yield termination basis, than the ongoing funding arrangements used to determine employer contributions.

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

- i. the cost of providing immediate benefits to those members age 55 or over in the year 1 April 2017 to 31 March 2018
- ii. less, 50% of the potential savings that may materialise in respect of members under age 55 with deferred benefits
- iii. plus the existing surplus or deficit at 31 March 2017

2.9 A number of admission bodies have found it difficult or deemed it uneconomically viable to obtain the full bond requirement recommended by the Actuary from financial institutions and alternatives such as charges against property or parent company guarantees have been agreed in a number of cases with the Fund

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

2.11 On a general basis, the bond requirements have increased by an average of 230% from those currently in-force, as revised following the 2013 triennial

valuation. This is mainly due to a fall in bond yields over the last few years which affect the illustrative termination liabilities.

Changes to the positions since 31 March 2017

- 2.12 Although investment returns since April 17 have continued to be positive mainly due to equity markets the assumptions used for calculating the termination basis will have changed which will in turn increase liabilities. This offsets the positive asset returns resulting in negligible changes to the bond/indemnity levels.
- 2.13 In view of the current financial pressures faced by employers, the Fund is mindful of the necessity to enter in to dialogue with employers in respect of covenant strength and any adverse impact of obtaining full coverage of the liability on the overall business plan; given that the basis of the bond calculations relate to a speculative closure event

3.0 RELEVANT RISKS

- 3.1 As there are significant shortfalls in the majority of in-force bonds relative to the actuarial assessment of the potential termination debts, there is a risk that in the event of a Community Admission Body exiting the Fund any unrecoverable debt will fall to the remaining employers within the Fund.
- 3.2 If compelled to implement the increased financial indemnities, employers may face significant financial hardship which could lead to the employer's insolvency. There would be a high risk that the termination debts would crystallise leaving the Fund with an immediate irrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 None.

5.0 CONSULTATION

- 5.1 The Fund consulted with employers during October 2016 before updating the Funding Strategy Statement, which included the methodology for determination of bond requirements.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 None associated with the subject matter

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 None arising from this report.

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

- 8.1 As the bond increases are significant, in order to determine appropriate uplifts Fund Officers will be required to engage with the employer's Chief Financial

Officers; to undertake further analysis of the organisations financial strength to reach a mutually agreed position, which mitigates the Fund's exposure to irrecoverable debt.

8.0 LEGAL IMPLICATIONS

9.1 None arising from this report.

10 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION IMPLICATIONS

11.1 None arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 None arising from this report.

13. RECOMMENDATION/S

13.1 Members are recommended to support the revision of the bond requirements and guarantees, in accordance with the latest figures provided by the Actuary as at 31/3/2017.

13.2 In the event that it is impractical and unaffordable for an employer to increase the level of bond/indemnity to the latest advised amount detailed in the exempt appendix, that Members delegate Fund Officers to conduct an appropriate due diligence exercise and enter into negotiations with the employer to reach a mutually agreeable position. Any such due diligence exercise to be conducted under a consistent framework and in compliance with the Funding Strategy Statement.

14.0 REASON FOR RECOMMENDATION/S

14.1 Following the 2015 annual potential unfunded liability review, Committee resolved to reconsider the position following the triennial valuation having regard to the assessment of accurate membership movement which would provide a sound baseline to reflect potential termination liabilities and associated bond /indemnity requirements.

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SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Review of Potential Unfunded Liabilities For Admission Bodies	1 July 2014
Review of Potential Unfunded Liabilities For Admission Bodies	15 September 2015

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WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	CONTRACTS TIMETABLE
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a copy of the contracts' timetable recently approved by Pension Committee.
- 1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Fund holds a number of contracts relating to the provision of pension and investment services from third parties. These are tendered regularly in accordance with the Council's Contract Procedure Rules.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

- 5.1 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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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

Report and EXEMPT appendix

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	CONTRACTS TIMETABLE
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Members with details of the Fund's contracts which are due for review and/or retender and seeks approval for the timetable proposed.
- 1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Fund holds a number of contracts relating to the provision of pension and investment services from third parties. These are tendered regularly in accordance with the Council's Contract Procedure Rules.
- 2.2 In anticipation of Pooling and the uncertainty of likely future requirements, a number of imminent tenders were put on hold until there was more clarity around Pooling arrangements. In parallel with this, the Fund has been engaging with the LGPS National Frameworks initiative and is a founder member on several of the frameworks now in place which has enabled it to shape the framework specifications to ensure they meet its requirements.
- 2.3 With governance arrangements for the Northern Pool now taking shape, the Fund has reviewed its contracts in the light of likely future requirements and a proposed timetable is set out in the appendix. There are still areas where decisions are yet to be made by the Pool. Where necessary, transitional contractual arrangements will need to be agreed with the Council's Corporate Procurement team.
- 2.4 In addition, the Fund's actuary has recommended that the potential use of protection strategies is evaluated by the Fund as a strategy for managing the risk of excessive volatility of its funding position. It is important that this is undertaken and completed promptly. With the proposed increase in internally managed

assets, it is also appropriate to undertake a review of the Fund's strategic asset allocation. This will assist in informing the way in which future investment mandates are specified.

3.0 RELEVANT RISKS

3.1 In support of its internal resources, the Fund makes extensive use of third party services to monitor, manage and maintain its systems and assets. Continuity of service provision is essential to ensure there is no interruption to these arrangements.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Fund liaises with the administering authority's corporate procurement team in relation to contract management.

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. Work that can be undertaken in house will be undertaken in house but some of the tenders will require the support of specialists in the areas involved. The costs of those specialists will be managed by use of the LGPS National Frameworks but a budget provision of £500,000 is proposed.

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 and approve the contract timetable and related expenditure.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Fund is subject to the EU's public procurement regulations and the Council's Contracts Procedure Rules.

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APPENDICES

Contract timetable – EXEMPT.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSION BOARD

DATE 20 MARCH 2018

SUBJECT:	WORKING PARTY MINUTES
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with copies of working party minutes since the previous Board meeting.
- 1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Investment Monitoring and Governance & Risk Working Parties convene regularly to enable Pension Committee members to consider pension matters in greater detail. Minutes of the working parties are reported to Pension Committee.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

REPORT

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX

EXEMPT appendices 1-3

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