Public Document Pack

WIRRAL

Pensions Committee

Date:	**Monday, 25 March 2019**
Time:	**6.00 p.m.**
Venue:	Birkenhead Town Hall - Council Chamber

This meeting will be webcast at
https://wirral.public-i.tv/core/portal/home

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

AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

2. MINUTES (Pages 1 - 8)

To approve the accuracy of the minutes of the meeting held on 21 January, 2019.

3. AUDIT PLAN (Pages 9 - 22)

4. LGPS UPDATE (Pages 23 - 26)

5. FAIR DEAL CONSULTATION (Pages 27 - 36)

6. PLSA LOCAL AUTHORITY CONFERENCE (Pages 37 - 50)

7. RISK MANAGEMENT (Pages 51 - 54)

8. POOLING UPDATE (Pages 55 - 58)

9. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

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

10. RISK MANAGEMENT - EXEMPT REPORT (Pages 59 - 62)

11. POOLING UPDATE - EXEMPT REPORT (Pages 63 - 84)

12. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

Audio/Visual Recording of Meetings

Everyone is welcome to record meetings of the Council and its Committees using non-disruptive methods. For particular meetings we may identify a 'designated area' for you to record from. If you have any questions about this please contact Committee and Civic Services (members of the press please contact the Press Office). Please note that the Chair of the meeting has the discretion to halt any recording for a number of reasons, including disruption caused by the filming or the nature of the business being conducted.

Persons making recordings are requested not to put undue restrictions on the material produced so that it can be reused and edited by all local people and organisations on a non-commercial basis.

PENSIONS COMMITTEE

Monday, 21 January 2019

Present:	Councillor	P Doughty (Chair)	
	Councillors	G Davies P Cleary T Cox(dep for Cllr K Hodson) P Hackett T Jones	B Kenny C Povall I Williams
Apologies	Councillors	J Aston (Knowsley Council) J Fulham (St Helens Council) A Gardner K Hodson P Lappin (Sefton Council)	
		R Bannister	

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

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

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

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

Councillor Cherry Povall declared a pecuniary interest by virtue of her daughter being a member of Merseyside Pension Fund.

46 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 29 October, 2018 be agreed.

47 **NORTHERN POOL DRAFT RESPONSIBLE INVESTMENT POLICY**

The Director of Pensions informed the Committee that the presentation for this item would not take place at this meeting. This would form the subject of the Responsible Investment Event at Aintree scheduled for Wednesday 23 January, 2019.

48 **LGPS UPDATE**

A report of the Director of Pensions provided Members with an update on the Scheme Advisory Board's key projects relating to the governance and administration of the Local Government Pension Scheme; specifically national initiatives to deal with inconsistencies across the Scheme for academies, the risks associated with Third-Tier employers and the conflicting interests at local authority employers who undertook the administering authority function.

The report also covered the policy consultation issued by the Ministry of Housing, Communities & Local Government on 'Technical Amendments to Benefits' and Merseyside Pension Fund's response.

Yvonne Caddock, (Head of Pensions Administration) informed Members that Fund Officers sought comments and approval from the Chairs of both the Pension Committee and Pension Board on the policy perspective, before the consultation response was submitted by the prescribed deadline of 29 November 2019.

The Head of Pensions Administration outlined the National Initiatives and Associated Scheme Advisory Board Activity and explained that the Scheme Advisory Board (SAB) was coordinating a number of projects to resolve issues that had arisen within the LGPS, relating to; the inconsistent treatment of Academies across Funds and the affordability constraints of Third-Tier Employers. In addition, further research was being undertaken to consider the dual role and conflicts of interest for a local authority employer undertaking the Scheme Manager function.

With regard to Consultation on 'Technical Amendments to Benefits' the Head of Pension Administration highlighted that the main change related to survivors' benefits of same-sex marriages or civil partners, with the objective to equalise benefits to those of an opposite sex surviving spouse. Surviving partners in a civil partnership or same sex marriage of either sex were all currently afforded benefits equivalent to widowers.

Members were informed that the Government had decided that all public service pension schemes should implement changes to ensure that survivors of a registered civil partnership or same-sex marriage were provided with benefits that replicated those provided to widows.

It was noted that this change would be significant as post-retirement marriage was based on service from 1978 for widows but only from 1988 for widowers.
The Fund had responded to the consultation on 28 November 2018, supporting the equalisation of survivor benefits but had raised concern that the proposals did not extend to cover survivor pensions for opposite sex marriages or cohabitating partners. The response was attached as an appendix to the report.

The Committee were informed that as the changes to Survivor pensions would apply from the date civil partnerships and same-sex marriages were implemented; this would result in the need for Pension Funds to revisit all awards made under the current rules to those members affected and pay any additional sums due.

As it had been estimated that the cost to extend the improvement in survivors' pensions to survivors of opposite sex marriages and cohabitating partners amounted

to £2.8 billion across the public sector; there was no intent to take the provision forward at this time. The Head of Pensions Administration also informed that HMT and DWP were currently in consultation on this issue.

Resolved - That;

a) the developments of the Scheme Advisory Board's projects and

b) the response sent to MHCLG regarding the policy consultation issued in October be noted.

49 **PENSION FUND BUDGET**

Members gave consideration to a report of the Director of Pensions that requested that Members approve the budget for the financial year 2019/20.

The budget for 2019/20 was attached as appendix 1 to the report.

Donna Smith, Head of Finance & Risk, informed the Committee that the headline figures showed that during the financial year 2019/20, it was estimated that MPF would pay £332m in pensions and receive £213m in contributions from employers and employees. The Fund had a value of £8.9bn at 30 September 2018. The proposed administration costs of £22.0m including £14.0m of investment management charges to external managers represented a cost of £160.65 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs were approximately £102.15 per member or 0.16% of assets under management.

The report informed that the budget for 2019/20 at £22.0m was higher than the projected outturn for 2018/19, but in line with the £22.0m set in 2018/19 primarily due to a number of projects and areas of spend being deferred and carried forward to the next financial year.

It was highlighted that the report included a predicted out-turn for 2018/19. Due to the volatility in financial markets and delays in billing from certain third party suppliers it was not possible to predict the outturn with complete accuracy. Therefore, some estimates had been used, and it was proposed to report on the actual outturn at the July meeting of Pensions Committee. At present, the outturn was lower than predicted largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.

Members were informed that the Fund's major expenditure was on investment management fees. These were mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This meant that when the Fund's investments rose in value and/or outperform benchmarks, the fees could rise substantially. Accordingly, when this expenditure rose there was a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2017/18 the outturn was expected to be lower than the estimate made last year due to market volatility.

The report noted that the second highest expenditure was on staffing. The outturn for 2018/19 would be underspent due to assumptions used and vacancies. In the light of the new pooling guidance, a further review of staffing requirements would be undertaken and any material changes would be reported to a subsequent meeting of this Committee.

Resolved – That;

1 (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery) the budget for 2019/20 be approved.

2 a further report on the outturn for 2018/19 with finalised estimates in particular for salary overheads and departmental & central support charges for 2019/20 be presented to Pensions Committee Members in July.

3 the officers be congratulated for the work that has been done.

50 **MEMBER DEVELOPMENT PROGRAMME**

The Director of Pensions introduced a report that provided Members with an outline of the proposed programme for member development in 2019. An outline training programme was attached as an appendix to the report and the Director of Pensions noted a correction in the heading from 2018 to 2019. He further indicated that full details of the event would be brought to future meetings of the Pensions Committee.

Resolved - That the proposed training and development plan for 2019 be noted and approved.

51 **TREASURY MANAGEMENT STRATEGY**

Members gave consideration to a report of the Director of Pensions that requested that Members approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2019/20.

Donna Smith, Head of Finance, introduced the report and responded to Members questions. It was reported that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services required Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy had last been approved by the Pensions Committee on 22 January 2018.

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

The Treasury Management Policy Statement 2019/20 was attached as Appendix 1 to the report. It was reported that there were no significant changes to the policy followed for 2018/19.

Resolved - That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2019/20 be approved.

52 **UPDATE ON INVESTMENT STRATEGY**

The Director of Pensions introduced a report that presented to Members a report commissioned as part of the Merseyside Pension Fund's investment strategy review process. The report examined the Fund's beliefs in regards to sustainable or responsible investing.

Appendices to the report contained Future Proofing the Investment Strategy, MPF/Sustineri 2018, the MPF Responsible Investment: Statement of Beliefs and a Letter from Sefton Council informing Committee of a Council Motion in relation to disinvestment from fossil fuel companies.

The Chair informed the Committee that representatives of MPF including the Director of Pensions, Councillor Pat Cleary, Owen Thorne, Portfolio Manager and himself had recently attended a launch opening at the Stock Exchange and had been presented with a glass memento of the occasion. He commented that Members could be very proud of MPF taking the lead at his event.

Resolved – That;

1 the report by Sustineri and its recommendations be noted.

2 the Fund's Statement of RI Beliefs be endorsed.

3 a reply to the motion from Sefton Council be prepared by the Director of Pensions in conjunction with Cllr Cleary and agreed by the Chair of Pensions.

4 the officers of MPF, in particular Owen Thorne, Portfolio Manager, be congratulated on their work.

53 **LGC INVESTMENT SEMINAR**

A report of the Director of Pensions requested nominations for members to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Chester from 28 February to 1 March 2019.

The Director of Pensions informed Members that the conference would themed "2019: Capitalising on the LGPS' strong financial position, despite the uncertain economic climate". The Seminar would provide practical advice from pools and funds, insight on what's new in investment and greater opportunities to sense-check priorities.

Resolved – That;

1 attendance at the (LGC) Investment Conference by Members be approved.

2 an invitation be circulated and Members wishing to attend the conference notify the Director of Pensions to enable the necessary registration and administration to be undertaken.

54 **PENSION BOARD MINUTES**

A report of the Director of Pensions provided members with the minutes of the previous meeting of the Local Pensions Board held on 16 October, 2018.

Resolved – That the minutes of the Local Pension Board held on 16 October, 2018 be noted.

55 **POOLING UPDATE**

A report of the Director of Pensions provided Members with details of a consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling. The draft guidance on asset pooling was attached as Appendix 1 to the report.

Members were informed that on 3 January 2019, MHCLG had issued draft statutory guidance on LGPS asset pooling. This set out the requirements on administering authorities, replacing previous guidance, and built on previous Ministerial communications and guidance on investment strategies. This would be an informal consultation with interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS. The consultation would remain open for 12 weeks and will close on 28 March 2019.

The report informed that the guidance set out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and took account of the current state of progress on pooling. It had been made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities were required to act in accordance with it.

The Director of Pensions informed members of the Committee that a report providing further analysis of the proposals and a draft response would be brought to Committee in March. If adopted as drafted, the most significant implication for the Northern Pool would be the requirement, as set out in section 3, to establish a pool company for the majority of assets which 'must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities'.

Resolved – That the report be noted.

56 **CONTRACTUAL ARRANGEMENTS**

The Director of Pensions introduced a report that provided Members with details of the Fund's contracts which were due for review and/or retender and sought approval for the actions proposed.

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

The report provided members with an update to the report brought to the Pensions Committee in January 2018. The Fund held a number of contracts relating to the provision of pension and investment services from third parties. These were tendered regularly in accordance with the Council's Contract Procedure Rules.

Members were apprised of a number of procurement exercises undertaken by the Fund Since the last report. A progress report on the investment strategy review was a separate item on this agenda. The strategy review had taken longer than anticipated and this had influenced the timing of some of the anticipated contract reviews. Another consideration had been the development of pooling arrangements by the Northern Pool which remains ongoing. Once concluded, the new investment strategy would inform the review and retender of the contracts and services that remained outstanding, subject to pooling arrangements being finalised. A revised schedule is set out in the exempt appendix. The Director of Pensions informed that where necessary, transitional contractual arrangements would need to be put in place in conjunction with the Council's Corporate Procurement team.

Resolved – That the report be noted and the contract timetable and related expenditure set out in the exempt appendix to the report be approved.

57 **LIABILITY RISK MANAGEMENT**

The Director of Pensions introduced a report that informed Members of the appointment of investment managers providing equity downside protection strategies to a framework agreement and implementation of a bespoke investment strategy in relation to a substantial employing body in the Fund.

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

Members were reminded that officers had been actively developing risk reduction strategies for the Fund. As advised to this Committee in January 2018, one area of interest had been the potential use of equity option strategies and, following an in-depth review of these strategies, a framework of investment managers able to implement these strategies has been put in place. The firms appointed were listed in exempt appendix 1 to this report.

The report noted that additionally, following the 2016 actuarial valuation, the Fund had introduced two additional investment strategies (medium risk and lower risk) to

give employers the option of reducing the level of investment risk they wished to take.

Members were informed that the Fund had been approached by an admitted body in the Scheme with a request to provide them with a lower risk strategy which would include explicit hedging of their liabilities' sensitivities to inflation and interest rate risk. Following detailed negotiations involving the Fund's actuary, officers and KPMG, advisors to the admitted body, a bespoke strategy had been agreed and designed to fulfil the requirements. The parameters of the strategy proposed by the employer were set out in exempt appendix 2.

Resolved – That the report be noted.

58 **WORKING PARTY MINUTES**

A report of the Director of Pensions provided Members with the minutes of meetings of Working Parties held since the last meeting.

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

Resolved – That the minutes attached as an exempt appendix to the report be approved.

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

60 **CONTRACTUAL ARRANGEMENTS**

The appendix to the report on the Revised Contracts Timetable was exempt by virtue of paragraph 3.

61 **LIABILITY RISK MANAGEMENT**

The appendix to the report on Liability Risk Management was exempt by virtue of paragraph 3.

62 **WORKING PARTY MINUTES**

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

Grant Thornton

External Audit Plan

Year ending 31 March 2019

Merseyside Pension Fund
March 2019

Contents

Your key Grant Thornton team members are:

Grant Patterson
Director
T: 0121 232 5296
E: Grant.B.Patterson@uk.gt.com

Stuart Basnett
Assistant Manager
T: 0151 224 7232
E: Stuart.H.Basnett@uk.gt.com

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

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set *in the Terms of Appointment and Statement of Responsibilities* issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Merseyside Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (TCWG). For this purpose the Audit and Risk Management Committee of Wirral MBC are ultimately TCWG in respect of the Pension Fund financial statements but we have determined that Pensions Committee is the appropriate committee to communicate with given its roles and responsibilities in relation to the Fund.

The audit of the financial statements does not relieve management or the Pensions or Audit and Risk Management Committees of their responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Valuation of Level 3 investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £85.0m (PY £87.334m) for the Fund, which equates to 1% of your net assets as at December 2018. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £4.25m (PY £4.4m).
Audit logistics	Our interim visit will take place in March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £28,399 (PY: £36,882) for the Fund, subject to management meeting our requirements set out on page 11. Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit of the Fund

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an immediate impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.

Internal Factors

Pooling

Arrangements in respect of Northern LGPS, which Merseyside Pension Fund are party to, are still under discussion. MHCLG have issued draft statutory guidance on LGPS asset pooling for consultation. If adopted as drafted, the most significant implication for Northern LGPS would be the requirement to establish a pool company for the majority of assets which 'must be a company regulated by the Financial Conduct Authority (FCA).

Northern LGPS's current preferred approach is via a joint committee with the other fund representatives.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will be testing more of your controls over benefits payable.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We will continue to discuss the arrangements for Northern LGPS with officers as they develop and monitor the consultation process in respect of the draft MHCLG statutory guidance which has been issued.
- We will share updates with you as soon as they are announced.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Merseyside Pension Fund. No specific work is planned as the presumed risk has been rebutted.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (c£2bn) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will consider the competence, expertise and objectivity of level 3 investment managers as experts and gain an understanding of how the valuation of these investments has been reached. • where they have occurred sample test revaluations made during the year to confirm they have been input correctly into the Fund's asset register.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by Wirral Metropolitan Borough Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

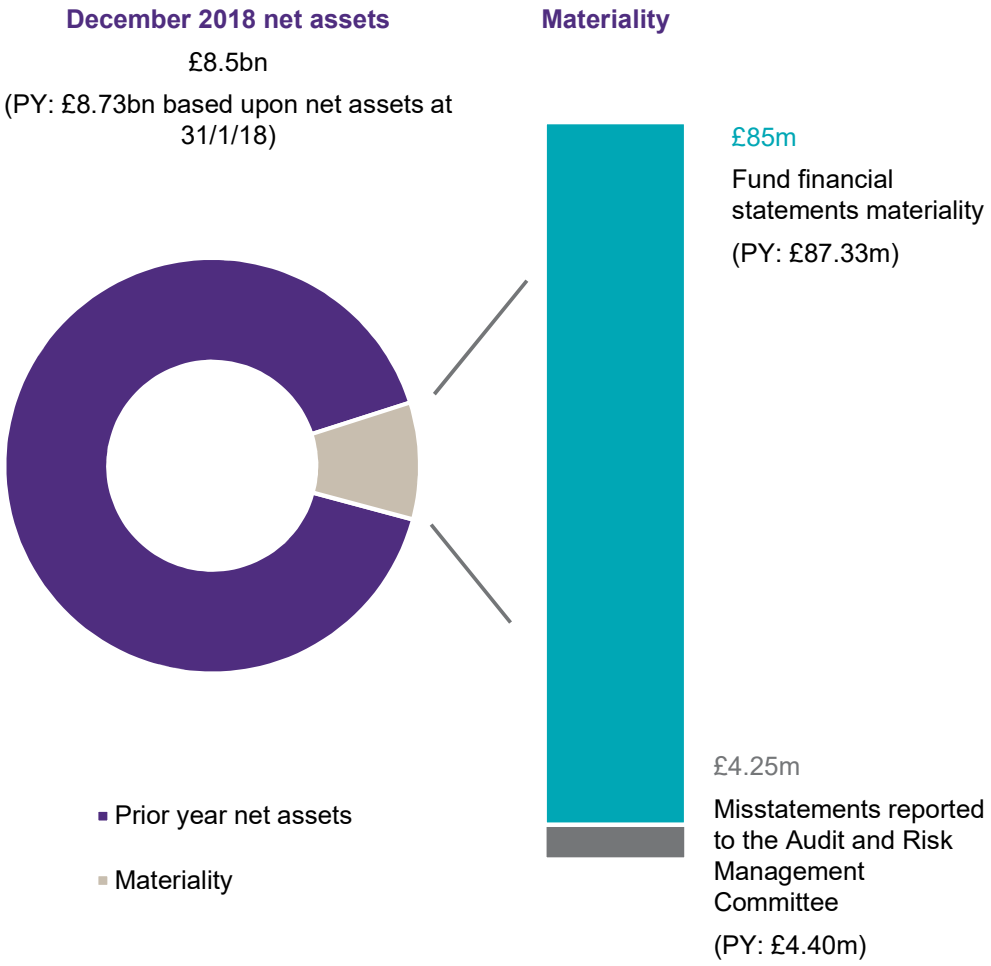
We have determined materiality at the planning stage of our audit to be £85.00m (PY £87.334m) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your actual net assets as at December 2018.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

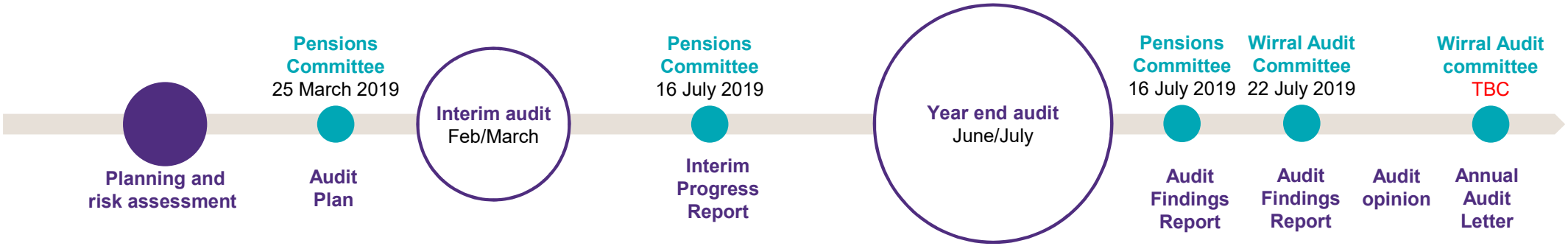
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.25m (PY £4.40m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Management Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Grant Patterson, Engagement Lead

Grant leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Fund.

Stuart Basnett, Audit Manager

Stuart plans, manages and leads the delivery of the audit, is the key point of contact for your finance team, and is the first point of contact for discussing any issues.

Chris Blakemore, Audit Incharge

Chris assists in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently and supervising and co-ordinating the on-site audit team.

Audit fees

The planned audit fees are £28,399 (PY: £36,882) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. £2,180 (PY: £2,180) of fees are planned for the provision of IAS19 assurance letters to PSAA appointed auditors of scheduled bodies. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 9). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Where requested by auditors of employers within the Fund we do provide assurance on certain aspects of our work. The additional costs of this work is charged to the Fund who have the discretion to recharge employers.

Appendices

A. Audit Approach

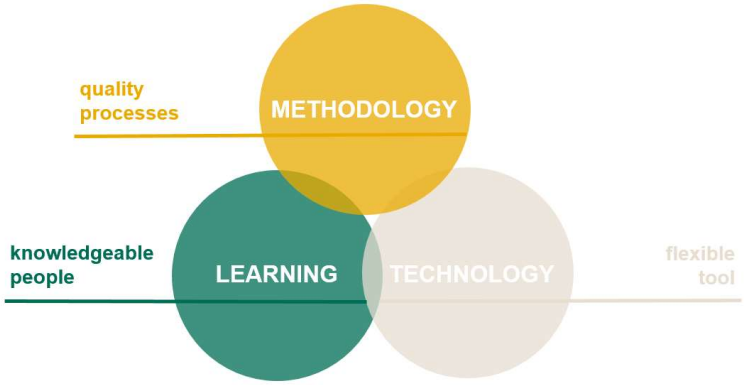
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

WIRRAL COUNCIL

PENSION COMMITTEE

25 MARCH 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report provides an update on developments relating to the cost management process for public service pension schemes - including the implications on the cost of the LGPS following the recent Court of Appeal decision in respect of the Judges' and Firefighter pension schemes.

2.0 BACKGROUND AND KEY ISSUES

Cost Management Process and the McCloud Judgement

2.1 Following the Hutton Review of public sector pensions, a cost management mechanism was implemented in all public sector schemes to ensure the cost of providing pensions is retained within an agreed range of costs.

Members considered the unique cost capping mechanism in operation within the LGPS at its meeting on 29 October 2018 (minute 26 refers); specifically the dual cost management processes undertaken by the Scheme Advisory Board (SAB) and Her Majesty's Treasury (HMT).

2.2 A recent review of the 2016 Valuation Results by the Government Actuary Department (GAD) determined that the costs of the LGPS are now below the 19.5% future service target cost . To bring costs back within the cost envelope the SAB has proposed the following improvements to the Scheme, which were due to be implemented on 1st April 2019:

- Removal of Tier 3 Ill Health;
- Minimum Death-in-Service lump sum of £75,000 per member (not Employment);

- Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
- Revised member contribution rates and bandings, which take account of varying tax relief:
- A 2.75% contribution rate for salaries between £0 and £12,850
- An expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from5.8% to 4.4%
- An expansion of the 6.8% contribution band from £45,200 to £53,500

2.3 The proposals take into consideration the change in the annual revaluation of CARE (Career Average Revalued Earnings) benefits to CPIH (Consumer Price Index including owner occupiers' housing costs), as opposed to CPI(Consumer Price Index) announced in the October 2018 budget.

2.4 It is expected that the proposals will result in an increase to the average employer contribution rate across the scheme of approximately 0.9% of payroll costs, although the impact on individual employers will vary and will be dependent on the 2019 valuation process.

McCloud Case

2.5 A short consultation on the above regulation changes was expected during February; however, the decision to implement the proposed changes has been delayed as the Government has recently lost a case in the Court of Appeal which will have a direct bearing on the cost of all public sector pension schemes.

Consequently HMT and SAB have ‘paused’ the cost management mechanism and withdrawn the proposals to amend scheme provisions.

2.6 The appeal case known as the ‘McCloud Case’ concerns the transitional protections given to members of the judges’ and firefighter pension schemes who in 2012 were within 10 years of their normal retirement age.

On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

2.7 The Government has applied to the Supreme Court for permission to appeal the decision and it is expected that the Court will provide notice whether to grant the application by mid-April 2019.

2.8 If the protections are deemed to be unlawful, those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.

Such remedies will need to be ‘upwards’ - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.

2.9 Protections were applied to all members within 10 years of retirement in all public service schemes, with the form of protection varying from scheme to scheme. Despite the case only applying to the judges’ and firefighter schemes it is anticipated that the outcome will apply to all public service schemes.

2.10 In light of the uncertainty of the outcome of the case, the SAB is consulting on the approach to be taken for the 2019 Actuarial Valuations.

Although it is clear that there will be increased costs emerging either by virtue of the cost capping mechanism or outcome of the McCloud case, it is unknown how these costs will impact on individual employers because of individual member profiles.

2.11 It is therefore likely that the 2019 Valuation will need to proceed based on current known costs. As such it will be necessary for administering authorities to document within their Funding Strategy Statement scope to revisit employer contributions, in order to deal with the emergent increase in costs following the outcome of the McCloud judgement.

3.0 Relevant Risks

Not relevant for this report

4.0 Other Options Considered

4.1 Not relevant for this report.

5.0 Consultation

5.1 Not relevant for this report

6.0 Outstanding previously approved actions

6.1 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 It is expected that the SAB proposals to return the future service cost to the 19.5% target level will result in an increase to the average

employer contribution rate across the scheme of approximately 0.9% of payroll costs.

8.2 In consideration of the suggested changes to employee contributions, employers with a high proportion of lower paid employees can expect increases in the region of 2% to 3% of payroll costs.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 Equalities Implications

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

No, because MHCLG undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 Carbon Reduction and Environmental Implications

11.1 There are none arising from this report

12.0 Planning And Community Safety Implications

12.1 There are none arising from this report

13.0 Recommendation

13.1 That Committee Members note:

a) developments in respect of the cost management process, and;
b) the subsequent delay in implementing changes to the benefit package due to the McCloud case and the impact on the impending 2019 Triennial Valuation.

14.0 Reason/s for Recommendations

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

REPORT AUTHOR Yvonne Caddock
Head of Pension Administration
Telephone (0151) 242 1333
Email yvonnecaddock@wirral.gov.uk

WIRRAL COUNCIL

PENSIONS BOARD

27 MARCH 2019

SUBJECT:	**GOVERNMENT CONSULTATION:** **LGPS FAIR DEAL – STRENGTHENING PENSION PROTECTION**
REPORT OF:	**DIRECTOR OF PENSIONS**

1.0 EXECUTIVE SUMMARY

1.1 This report covers the consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG) on 'New Fair Deal'.

The consultation relates to the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers.

1.2 The consultation was issued on 10 January 2019 with a request for consultation responses to be submitted by 4 April 2019.

1.3 A draft response is attached as an appendix to the report. The response is to be considered by Pensions Committee on 25 March 2018 with officers seeking Members' approval for submission to MHCLG.

1.4 The draft response has also been shared with the Independent Chair of the Pension Board for his review and comment.

2.0 BACKGROUND AND KEY ISSUES

2.1 MHCLG issued a consultation in May 2016 regarding the introduction of greater pension protection for employees of LGPS employers who are compulsorily transferred to service providers.

2.2 In line with the Government's Fair Deal Guidance dated October 2013, the 2016 consultation document proposed that these employees should have continued access to the LGPS with the new service provider.

2.3 A further consultation was published on 10th January and takes into consideration some of the concerns raised in the initial consultation.

The full consultation document can be accessed from the following link:

https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

Consultation and Proposed Changes

2.4 The latest consultation is requesting views on the following proposals:

- Amendments that would require service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer, removing the option of offering a broadly comparable scheme.
- Automatic transfer of LGPS assets and liabilities when employers in the scheme are involved in a merger or takeover.

2.5 It is also proposed that all LGPS scheme employers will be considered as Fair Deal employers with the exception of:

- Further Education corporations, Sixth Form College corporations and Higher Education corporations, and
- Admission bodies.

2.1 The proposed regulations introduce the new concept of a 'protected transferee', for individuals who are eligible for membership of the LGPS and who are employees of a Fair Deal employer before the compulsory transfer of their employment to a new service provider.

These employees must be given access to the LGPS whilst they remain a protected transferee and have entitlement to membership of the Scheme.

2.7 Transitional arrangements will cover staff who have already been outsourced, in order for them to become protected transferees if and when services are re-tendered.

2.8 The consultation also proposes that service providers do not necessarily need to become admission bodies to participate in the LGPS.

Instead, employers could be given 'deemed employer' status, a classification of employer which already exists within LGPS regulations, for example, the deemed employer of a voluntary school is the associated local authority.

2.9 The LGPS Scheme Advisory Board (SAB) will issue guidance to assist employers under Fair Deal to address inherent pension risks when outsourcing contracts.

2.10 The admission body route will remain an option so that Fair Deal employers can decide if they wish for a service provider to become a full scheme employer in the LGPS. This approach may be more appropriate for larger, longer term contracts where it is more fitting for a service provider to have full employer responsibilities under the LGPS regulations.

2.11 The draft regulations include an additional paragraph within Part 3 of Schedule 2 of the LGPS Regulations 2013, confirming that admission agreements may contain details of the risk sharing arrangements agreed between the Fair Deal employer and the service provider.

It is anticipated that advice issued by the SAB will contain further details regarding the risk sharing provisions that may be included within admission agreements.

3.0 RELEVANT RISKS

3.1 Under the new proposals, the Fair Deal employer will have the option to remain the deemed employer of the transferred staff and retain the majority of the pension risk.

3.2 Any risks they wish to share with the new service provider would be set out in the service contract.

4.0 RESOURCE IMPLICATIONS: FINANCIAL: IT; STAFFING and ASSETS

4.1 The proposed removal of the GAD certified broadly comparable option will help to maintain LGPS membership levels and dampen the pace of scheme maturity.

5.0 RECOMENDATION

5.1 The Pension Board is requested to note the consultation document and the attached formal response,

6.0 REASONS FOR RECOMMENDATIONS

6.1 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 AUTHOR Yvonne Caddock
Head of Pensions Administration
Telephone (0151) 242 1333
Email yvonnecaddock@wirral.gov.uk

APPENDIX ONE

Merseyside Response to the consultation: Fair Deal –Strengthening Pension Protection

Merseyside
PENSION FUND

LGF Reform and Pensions Team
Ministry of Housing, Communities & Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Direct Line: 0151 242 1390

Please ask for: Yvonne Caddock

Date: 26 March 2019

c/o **LGPensions@communities.gsi.gov.uk**

Dear Sirs

Local Government Pension Scheme

Fair Deal - Strengthening Pension Protection

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

The Fund is part of the Local Government Pension Scheme (LGPS) and the 4th largest of the 88 funds, with assets in excess of £8.5bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 180 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 130,000 active, deferred and pensioner members.

Our Response

Principally MPF concurs with the overall policy intent of the regulations and the statutory requirement for employees who are compulsorily transferred from a “Fair Deal employer” to be granted guaranteed access to the LGPS.

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

Furthermore ‘broadly comparable’ schemes are, in practice, relatively rare and their removal from the legislative process will achieve a consistency of approach with other public sector schemes.

In considering the individual questions posed, we provide the following comments:

Q1 - Do you agree with the definition of protected transferees?

MPF agrees with the stated definition of a protected transferee and that a member who has transferred from a Fair Deal employer should retain eligibility to participate in the LGPS.

We note the continuation of current practice where contractors enter into an ‘open’ admission agreement in order to permit access to the LGPS for staff employed on the service delivery post-transfer. We recognise these staff would be treated as protected

transferees under the regulations if the Fair Deal employer and service provider both agree under the contractual arrangements.

The draft regulations include provisions for either the Fair Deal employer or the service provider to determine whether staff employed post-transfer are no longer protected transferees, and as these staff will not acquire protected status when the contract is retendered it appears disingenuous to attach protected transferee status in these circumstances.

Although in the main MPF's experience is that the majority of admission applications are "closed" to new members and as such the incidences of employers and service providers reversing an employees protected pension status is likely to be minimal.

Q2 - Do you agree with the definition of a Fair Deal employer?

The definition of a Fair Deal employer does not seem unreasonable as the scope is similar to existing provisions, although a little wider which simplifies administration and provides greater clarity for staff, employers and service providers.

MPF is of the opinion that excluding higher and further education corporations may increase future out-sourcing in this sector, leading to a reduction in membership and long-term participation of the LGPS - although we are cognisant of the different approach being undertaken due to their status as private sector employers.

It appears that draft regulation 3B(1) and 3B(11) suggest that employees working for a different Fair Deal employer from the one carrying out the outsourcing are not protected; for example, in circumstances where an academy school sources services from a local authority, and then subsequently outsources the service. As the staff are employees of the local authority, then the academy is not the "Fair Deal employer" and our interpretation of the draft Regulations is that these employees' pension rights are not protected.

However, if they had been working directly for the academy school then the academy would be their "Fair Deal employer" so the employees would be protected. This anomaly requires clarification for all parties along with a policy decision to remove any ambiguity in dealing with future contracts or inequitable treatment of staff.

Q3 - Do you agree with these transitional measures?
Q4 - Do you agree with our proposals regarding the calculation of inward transfer values?

As it is the intent for new Fair Deal to supersede the Best Value Direction it is fit and proper that those previously covered under the direction become protected transferees under the LGPS Amendment Regulations 2019.

When an existing contract comes to an end, which operated with a broadly comparable scheme, it is reasonable to allow staff to transfer benefits accrued upon their re-joining the LGPS – thus securing career average benefits using normal LGPS transfer-in terms.

As broadly comparable schemes connected to outsourced contracts are rare and with the proposals only applying to those in service at the end of the contract, it is likely that the transfer route will have limited effect.

It is noteworthy that inward transfer values would not provide the employees with full continuity of pension benefits. However, as the transfers terms in operation by the LGPS are relatively generous compared to those in the private sector, it is likely members will not suffer any detriment to their pension savings.

The former Fair Deal guidance promoted the use of Bulk transfers to facilitate the seamless movement of pension rights for outsourced contracts. In our experience bulk exercises are usually lengthy processes involving actuaries on both sides, and individual transfers would be quicker to resolve with no actuary fees incurred.

Q5 - Do you agree with the proposal on deemed employer status?
Q6 - What advice should the Scheme Advisory Board provide to ensure the deemed employer status works effectively?

MPF believes that the proposed approach to introduce deemed employer status is practical and is a simplified method of achieving pension protection, as it avoids the new employer having to consider and enter into an admission agreement.

Deemed employer status will be less onerous where contracts are constructed on a pure "pass through" basis and avoids the need to assess exit debts or credits at the end of the contract. This approach could be used in conjunction with limited risk sharing arrangements between the Fair Deal employer and the new service provider, for example, where early retirement strains are picked up by the contractor. Although in the event of the full pension risks passing to the service provider the existing admission agreement approach is appropriate.

It is imperative that the Scheme Advisory Board (SAB) provide a comprehensive statement of the various pension risks for consideration along with a comprehensive list of the full responsibilities that each party has to the administering authority in their respective roles.

Specifically, it will be necessary for the Scheme Advisory Board to provide direction for administrative purposes as to whether:

- Funds should deal with the Fair Deal employer or the new employer;
- Funds need to establish a separate employer code for the new employer e.g. for dealing with reconciliation of contributions and payroll queries;
- The new employer operates its own discretions policy or whether the Fair Deal employer's policies will apply;
- The employer contribution rate in respect of the outsourced employees is remitted to the Fund from the service provider or the deemed employer along with the mechanism for making payment under any risk sharing arrangements.

In addition, engagement between schools and local authorities must improve to ensure that all are aware of potential outsourcing exercises. Schools need to recognise the importance of pensions when outsourcing services and the requirement to proactively liaise with the local authority in determining the appropriate route to provide pension protection.

Q7 - Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?

As there is no direct link between the Fund and the new employer we would expect there to be clear statutory direction as to how pension costs are to be funded between the parties under cover of the contractual arrangements or for the regulations to provide a default position.

Furthermore, specific allocation of costs would mean that deemed employers would still need to be monitored, unless there was a complete pass through of all costs to the Fair Deal entity.

Q8 - Is this the right approach to existing arrangements.

The admission agreement approach works better than Deemed Employer where the outsourced employer takes on wider risks, as the admission agreement route provides for better segregation of the assets and liabilities from those of the Fair Deal employer.

The provision to include risk sharing arrangements within admission agreements should add more flexibility to the drafting of admission agreements. To date MPF has used standard admission agreements and any risk sharing arrangements are covered in the contractual agreements as they are a matter for the authority and the outsourced employer.

MPF is mindful that the inclusion of risk sharing clauses will provide Funds with clarity on how the employer should be treated at termination of the admission agreement. This is particularly important with the introduction of Exit Credits in 2018, as many Funds are not party to the agreements between the authority and the outsourced employer and this can result in unnecessary payment of monies out of the Fund when an employer exits with a surplus funding position.

Q9 - What further steps can be taken to encourage pensions issues to be given full and timely consideration by Fair Deal employers when services or functions are outsourced?

Full statutory guidance should be cascaded to employers within the LGPS, to ensure that they comply with guidelines and understand the full implications of their responsibilities.

Fair Deal employers should be required to declare the approach they are taking at the tender initiation stage to avoid ambiguity amongst all parties and to facilitate administering authorities and employers to plan appropriate resources and support the timely consideration of pension issues.

Q10 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by our Fair Deal proposals?

No

Q11 – Is the proposed approach to transferring pension assets and liabilities the right approach?
Q12 – Do the draft regulations effectively achieve our aims?
Q13 – What should guidance issued by the Secretary of State regarding the terms of asset and liability transfers?

There has been concern across the LGPS about the potential for employers to be dissolved without paying off any exit debt. This amendment seeks to change that, by making any successor employer responsible for the original employer's LGPS assets and liabilities, even if the successor employer is in a different LGPS Fund.

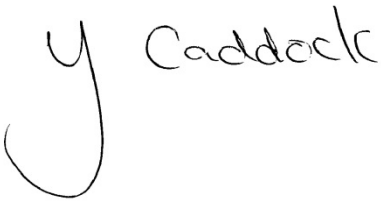
MPF believe the aim of this policy is sensible, and on the whole it will work well when the intention is for the assets and liabilities to simply consolidate into one Fund.

Although, we have concerns about it not needing the consent of the receiving Fund, as it could increase risk to taxpayers if the employer could not support the combined liabilities in the long term. We therefore think it appropriate that consent should be required from the receiving Fund in order to seek relevant protections. Furthermore, a simplified version of the Secretary of State Direction regime to gain agreement for consolidation would be preferred.

In conclusion, MPF supports the majority of the proposals for strengthening pension protection, on the assumption that there is clear Statutory Guidance issued by SAB.

Principally the consultation raises issues which need to be considered in detail by employers, and it is critical that each employer engaged in outsourcing forms its own view and policies on the issues raised. Whilst there will be an impact on Funds, this will be in terms of putting in the correct administrative processes so that decisions reached by employers can be implemented in an efficient and effective manner.

Yours faithfully



Yvonne Caddock

Head of Pensions Administration

This page is intentionally left blank

WIRRAL COUNCIL

PENSIONS COMMITTEE

26 MARCH 2018

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

1.0 EXECUTIVE SUMMARY

1.1 This report requests nominations for members to attend the Pensions & Lifetime Savings (PLSA (formerly NAPF)) Local Authority Conference 2019 to be held in Gloucester from 13 May to 15 May 2019.

2.0 BACKGROUND AND KEY ISSUES

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

Cost and complexities - governing the LGPS is the theme of Local Authority Conference 2019 – a topic with many angles, which we will be discussing fully over the three days. The LGPS has much to consider – the move from triennial to quadrennial valuations, the potential breaches of the cost cap ceiling and floor, the forthcoming pensions dashboard, and a real desire to better align the needs of the fund with the framework of the local authorities that underlie them.

These concerns take place against the backdrop of a complicated political and economic environment involving issues such as Brexit, climate change and the always-dynamic financial markets each critical for the LGPS to understand and each thoroughly explored here.

The full agenda is attached as an appendix to the report. Speakers so far include:

Rishi Sunak MP, Minister for Local Government
Jeff Houston, Head of Pensions, Local Government Association
Ayesha Hazarika, Columnist, Broadcaster and Political Commentator (after-dinner speaker)
Timandra Harkness, Science Writer, Broadcaster and Comedian
Sabina Kalyan, Co-Head of Global Research & Global Chief Economist at CBRE Global Investors

2.2 MPF has been represented at all previous PLSA Local Authority Conferences.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 The cost of attendance plus two nights' accommodation will be £486 + VAT per delegate, excluding travel, which can be met from the existing Pension Fund budget.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

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

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Attendance at this conference is a part of the development programme approved by Members in January 2019.

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

APPENDICES

Agenda

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

LOCAL AUTHORITY CONFERENCE 2019 MONDAY	
12.00 - 19.00	REGISTRATION OPEN
	MEZZANINE 12.00-19.00
13.00 - 14.00	NETWORKING LUNCH FOR LOCAL AUTHORITY COUNCILLORS AND OFFICERS
	NETWORKING/STARLING/13.00-14.00
14.00 - 15.00	ALTERNATIVE CREDIT FOR LOCAL AUTHORTIES
	LEARNING ZONE/DRAKE/14.00-15.00
	Understanding how some fixed income assets may help prepare LGPS investors for coming market volatility
	Alistair Lumsden, Chief Executive Officer & Chief Investment Officer, East Lodge Capital
	Chair: Rachel Pine, Event Content Manager, PLSA
15.00-15.30	REFRESHMENT BREAK
	NETWORKING/EXHIBITION HALL/15.00-15.30
15.30 - 16.30	LGPS FUNDING AND CLIMATE CHANGE
	Learning Zone /Drake /15:30 - 16:30
	Catherine McFadyen, Head of Public Sector Actuarial, Benefits and Governance, Hymans Robertson
	William Marshall, Head of LGPS Investment Clients, Hymans Robertson
	Chair: Rachel Pine, Event Content Manager, PLSA
16.30 - 16.45	REFRESHMENT BREAK
	NETWORKING/EXHIBITION HALL/16.30-16.45
16.45 - 17.45	UK REAL ESTATE - NAVIGATING STRUCTURAL CHANGES
	SPECIALIST SESSION/SWIFT/16.45-17.45
	Fundamental changes in the property market may create new opportunities for LGPS investors
	Andrew Allen, Global Head of Investment Research, Aberdeen Standard Investments
	Chair tbc

17.45 - 19.00	WELCOME DRINKS RECEPTION IN THE EXHIBITION HALL
	NETWORKING/EXHIBITION HALL/17.45-19.00
19.00 - 21.00	DINNER IN THE HOTEL RESTAURANT
	NETWORKING/RESTAURANT/19.00-21.00
	No formal arrangements

TUESDAY	
9.00	EXHIBITION OPENS AND COFFEE SERVED NETWORKING/EXHIBITION/09.00-19.00
09.15 - 09.30	CHAIR'S WELCOME AND INTRODUCTION
	PLENARY 1/MALLARD SUITE/09.15-09.30
	Richard Butcher, Chair, PLSA/Managing Director, PTL
10.10 - 10.55	THE FLOOR TO CEILING VIEW
	PLENARY 3/MALLARD SUITE/10.10-10.55
	Jeff Houston, Head of Pensions, Local Government Association
	Cllr. Roger Phillips, Chair, The Local Government Pension Scheme Advisory Board; member of Herefordshire Council and Worcestershire Pension Committee
	Co-Speaker tbc
	Chair: Joe Dabrowski, Head of DB, LGPS and Standards, PLSA
10.55 - 11.25	REFRESHMENT BREAK IN THE EXHIBITION HALL

	NETWORKING/EXHIBITION HALL/10.55-11.25		
11.25 - 12.10	SESSION TBC	THE UN'S SUSTAINABLE DEVELOPMENT GOALS AND IMPACT INVESTING: PRIVATE VERSUS PUBLIC MARKETS	COST TRANSPARENCY INITIATIVE AND THE LGPS
	GOVERNANCE AND ADMINISTRATION STREAM	INVESTMENTS STREAM/TBC/11.25-12.10	NEW HORIZONS STREAM/TBC/11.25-12.10
	TBC/11.25-12.10	Jon Dean, Portfolio Manager, AXA IM Impact Investments	Co-Speakers tbc
	Co-Speakers tbc	Ian Smith, Portfolio Manager, AXA IM Framlington Equities	Chair: Joe Dabrowski, Head of DB, LGPS and Standards, PLSA
	Chair tbc	Chair: Karen Shackleton, Adviser, Local Authority Funds	
12.10 - 13.30	LUNCH		
NETWORKING/RESTAURANT/12.10-13.30			
13.30 - 14.15	PLENARY 4/MALLARD SUITE/13.30-14.15		
	An overview of the SAB's new report on improving governance in the LGPS		
	Robert Holloway, Pension Secretary, Local Government Association		
	Catherine McFadyen, Head of Public Sector Actuarial, Benefits and Governance, Hymans Robertson		
	Chair tbc		
14.15 - 15.00	STRENGTHENING PENSION PROTECTION - UNDERSTANDING THE NEW FAIR DEAL REGULATIONS	SESSION TBC	PROFITING FROM DISRUPTION
	GOVERNACE AND ADMINISTRATION STREAM/TBC/14.15-	INVESTMENT STREAM/TBC/14.15-15.00	NEW HORIZONS STREAM/TBC/14.15-15.00

	15.00		
	Con Hargrave, Policy Adviser, Local Government Finance Reform and Pensions	More details coming soon…	How can we benefit from the rise of Amazon, Uber and Airnb?
	Co-Speaker tbc Bottom of Form	C0-Speakers tbc	Rob Almeida, Global Investment Strategist, MFS
	Chair: Tiffay Tsang, Polcity Lead LGPS and DB, PLSA	Chair tbc	Co-Speaker tbc
			Chair: Caroline Escott, Policy Lead: Investment and Stewardship, PLSA
15.30 - 16.15	UNDERSTANDING THE LOCAL IMPACT OF GLOBAL EVENTS		
	PLENARY 5/MALLARD SUITE/15.30-16.15		
	An economics MOT, with a special emphasis on property		
	Sabina Kalyan, Co-Head of global Research & Global chief Economist, CBRE Global Investors		
	Chair: Nicola Mark, Member, PLSA Policy Board; Head of Norfolk Pension Fund		
16.15 - 17.15	THIS HOUSE BELIEVES THE LGPS SHOULD BE REQUIRED TO BUILD SOCIAL HOUSING AND INFRASTRUCTURE FOR THE GOOD OF THE NATION		
	PLENARY 6/MALLARD SUITE/16.15-17.15		
	The audience will vote before and after this debate, which is sure to be a spirited one!		
	Ted Frith, Chief Operating Officer, GLIL Infrastructure		
	Guest Chair: Nicola Mark, Member, PLSA Policy Board; Head of Norfolk Pension Fund		
19.00 - 2.00	CONFERENCE DINNER		
	NEWWORKING/WHIMBREL MARQUEE/19.00-22.00		
	After dinner speaker: Ayesha Hazarika, Columnist, broadcaster, political commentator and comedian		

WEDNESDAY	
9.00	EXHIBITION OPENS COFFEE SERVED
	NETWORKING/EXHIBITION HALL/09.00-11.30
09.30 - 10.15	SESSION TBC

	PLENARY 7/MALLARD SUITE/09.30-10.15
	More details coming soon…
	Co-Speakers tbc
	Chair tbc
10.15 - 11.00	SHOULD THE LGPS PLUG INTO THE PENSION DASHBOARD?
	PLENARY 8/MALLARD SUITE/10.15-11.00
	A view on the pros and cons of LGPS participation in the pensions dashboard
	Dawn Turner, Chief Executive, Brunel Pension Partnership
	Co-Speaker tbc
	Chair: Richard Butcher, Chair PLSA/Managing Director, PTL
11.00 - 11.30	REFRESHMENT BREAK IN THE EXHIBITON HALL
	NETWORKING/EXHIBITION HALL/11.00-11.30
11.30 - 12.15	BEST PRACTICE IN USING ASSET SCALE TO BRING CHANGE
	PLENARY 9/MALLARD SUITE/11.30-12.15
	Key ideas and best practice from the leader of one of the world's largest multi-employer pensions
	Co-Speakers tbc
	Chair tbc
12.15 - 13.00	WHAT''S THE BIG DEAL ABOUT BIG DATA?
	Understanding the uses, and potential abuses, of information that is collected about all of us
	Timandra Harkness, Science Writer, Broadcaster and Comedian
	Chair: Richard Butcher, Chair, PLSA/Managing Director, PTL
13.00	LUNCH, CLOSE OF CONFERENACE
	NETWORKING/RESTAURANT/13.00-14.00

LOCAL AUTHORITY CONFERENCE 2019 **MONDAY**	
12.00 - 19.00	REGISTRATION OPEN
	MEZZANINE 12.00-19.00
13.00 - 14.00	NETWORKING LUNCH FOR LOCAL AUTHORITY COUNCILLORS AND OFFICERS
	NETWORKING/STARLING/13.00-14.00
14.00 - 15.00	ALTERNATIVE CREDIT FOR LOCAL AUTHORTIES
	LEARNING ZONE/DRAKE/14.00-15.00
	Understanding how some fixed income assets may help prepare LGPS investors for coming market volatility
	Alistair Lumsden, Chief Executive Officer & Chief Investment Officer, East Lodge Capital
	Chair: Rachel Pine, Event Content Manager, PLSA
15.00-15.30	REFRESHMENT BREAK
	NETWORKING/EXHIBITION HALL/15.00-15.30
15.30 - 16.30	LGPS FUNDING AND CLIMATE CHANGE
	Learning Zone /Drake /15:30 - 16:30
	Catherine McFadyen, Head of Public Sector Actuarial, Benefits and Governance, Hymans Robertson
	William Marshall, Head of LGPS Investment Clients, Hymans Robertson
	Chair: Rachel Pine, Event Content Manager, PLSA
16.30 - 16.45	REFRESHMENT BREAK
	NETWORKING/EXHIBITION HALL/16.30-16.45
16.45 - 17.45	UK REAL ESTATE - NAVIGATING STRUCTURAL CHANGES
	SPECIALIST SESSION/SWIFT/16.45-17.45
	Fundamental changes in the property market may create new opportunities for LGPS investors
	Andrew Allen, Global Head of Investment Research, Aberdeen Standard Investments
	Chair tbc

17.45 - 19.00	WELCOME DRINKS RECEPTION IN THE EXHIBITION HALL
	NETWORKING/EXHIBITION HALL/17.45-19.00
19.00 - 21.00	DINNER IN THE HOTEL RESTAURANT
	NETWORKING/RESTAURANT/19.00-21.00
	No formal arrangements

TUESDAY	
9.00	EXHIBITION OPENS AND COFFEE SERVED NETWORKING/EXHIBITION/09.00-19.00
09.15 - 09.30	CHAIR'S WELCOME AND INTRODUCTION
	PLENARY 1/MALLARD SUITE/09.15-09.30
	Richard Butcher, Chair, PLSA/Managing Director, PTL
10.10 - 10.55	THE FLOOR TO CEILING VIEW
	PLENARY 3/MALLARD SUITE/10.10-10.55
	Jeff Houston, Head of Pensions, Local Government Association
	Cllr. Roger Phillips, Chair, The Local Government Pension Scheme Advisory Board; member of Herefordshire Council and Worcestershire Pension Committee
	Co-Speaker tbc
	Chair: Joe Dabrowski, Head of DB, LGPS and Standards, PLSA

10.55 - 11.25	REFRESHMENT BREAK IN THE EXHIBITION HALL		
	NETWORKING/EXHIBITION HALL/10.55-11.25		
11.25 - 12.10	SESSION TBC	THE UN'S SUSTAINABLE DEVELOPMENT GOALS AND IMPACT INVESTING: PRIVATE VERSUS PUBLIC MARKETS	COST TRANSPARENCY INITIATIVE AND THE LGPS
	GOVERNANCE AND ADMINISTRATION STREAM	INVESTMENTS STREAM/TBC/11.25-12.10	NEW HORIZONS STREAM/TBC/11.25-12.10
	TBC/11.25-12.10	Jon Dean, Portfolio Manager, AXA IM Impact Investments	Co-Speakers tbc
	Co-Speakers tbc	Ian Smith, Portfolio Manager, AXA IM Framlington Equities	Chair: Joe Dabrowski, Head of DB, LGPS and Standards, PLSA
	Chair tbc	Chair: Karen Shackleton, Adviser, Local Authority Funds	
12.10 - 13.30	LUNCH		
NETWORKING/RESTAURANT/12.10-13.30			
13.30 - 14.15	PLENARY 4/MALLARD SUITE/13.30-14.15		
	An overview of the SAB's new report on improving governance in the LGPS		
	Robert Holloway, Pension Secretary, Local Government Association		
	Catherine McFadyen, Head of Public Sector Actuarial, Benefits and Governance, Hymans Robertson		
	Chair tbc		

14.15 - 15.00	STRENGTHENING PENSION PROTECTION - UNDERSTANDING THE NEW FAIR DEAL REGULATIONS	SESSION TBC	PROFITING FROM DISRUPTION
	GOVERNACE AND ADMINISTRATION STREAM/TBC/14.15-15.00	INVESTMENT STREAM/TBC/14.15-15.00	NEW HORIZONS STREAM/TBC/14.15-15.00
	Con Hargrave, Policy Adviser, Local Government Finance Reform and Pensions	More details coming soon…	How can we benefit from the rise of Amazon, Uber and Airnb?
	Co-Speaker tbc Bottom of Form	C0-Speakers tbc	Rob Almeida, Global Investment Strategist, MFS
	Chair: Tiffay Tsang, Polcity Lead LGPS and DB, PLSA	Chair tbc	Co-Speaker tbc
			Chair: Caroline Escott, Policy Lead: Investment and Stewardship, PLSA
15.30 - 16.15	UNDERSTANDING THE LOCAL IMPACT OF GLOBAL EVENTS		
	PLENARY 5/MALLARD SUITE/15.30-16.15		
	An economics MOT, with a special emphasis on property		
	Sabina Kalyan, Co-Head of global Research & Global chief Economist, CBRE Global Investors		
	Chair: Nicola Mark, Member, PLSA Policy Board; Head of Norfolk Pension Fund		
16.15 - 17.15	THIS HOUSE BELIEVES THE LGPS SHOULD BE REQUIRED TO BUILD SOCIAL HOUSING AND INFRASTRUCTURE FOR THE GOOD OF THE NATION		
	PLENARY 6/MALLARD SUITE/16.15-17.15		
	The audience will vote before and after this debate, which is sure to be a spirited one!		
	Ted Frith, Chief Operating Officer, GLIL Infrastructure		
	Guest Chair: Nicola Mark, Member, PLSA Policy Board; Head of Norfolk Pension Fund		
19.00 - 2.00	CONFERENCE DINNER		
	NEWWORKING/WHIMBREL MARQUEE/19.00-22.00		
	After dinner speaker: Ayesha Hazarika, Columnist, broadcaster, political commentator and comedian		

WEDNESDAY	
9.00	EXHIBITION OPENS COFFEE SERVED
	NETWORKING/EXHIBITION HALL/09.00-11.30
09.30 - 10.15	SESSION TBC
	PLENARY 7/MALLARD SUITE/09.30-10.15
	More details coming soon…
	Co-Speakers tbc
	Chair tbc
10.15 - 11.00	SHOULD THE LGPS PLUG INTO THE PENSION DASHBOARD?
	PLENARY 8/MALLARD SUITE/10.15-11.00
	A view on the pros and cons of LGPS participation in the pensions dashboard
	Dawn Turner, Chief Executive, Brunel Pension Partnership
	Co-Speaker tbc
	Chair: Richard Butcher, Chair PLSA/Managing Director, PTL
11.00 - 11.30	REFRESHMENT BREAK IN THE EXHIBITON HALL
	NETWORKING/EXHIBITION HALL/11.00-11.30
11.30 - 12.15	BEST PRACTICE IN USING ASSET SCALE TO BRING CHANGE
	PLENARY 9/MALLARD SUITE/11.30-12.15
	Key ideas and best practice from the leader of one of the world's largest multi-employer pensions
	Co-Speakers tbc
	Chair tbc
12.15 - 13.00	WHAT'E THE BIG DEAL ABOUT BIG DATA?
	Understanding the uses, and potential abuses, of information that is collected about all of us
	Timandra Harkness, Science Writer, Broadcaster and Comedian
	Chair: Richard Butcher, Chair, PLSA/Managing Director, PTL
13.00	LUNCH, CLOSE OF CONFERENACE
	NETWORKING/RESTAURANT/13.00-14.00

This page is intentionally left blank

WIRRAL COUNCIL

PENSIONS COMMITTEE

25 MARCH 2019

SUBJECT:	**RISK MANAGEMENT**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the progress made in relation to the design of an equity downside protection strategy for the Fund and seeks approval for the implementation of the structure outlined in the report from Mercer (appendix 1).

1.2 To enable implementation, the report also seeks approval for an amendment to the Fund's Investment Strategy Statement to allow for the use of derivatives.

1.3 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 In January 2019, Committee was informed of the appointment of a framework of investment managers able to implement equity downside protection strategies. Officers have been liaising with the Fund's major employers and with the actuary in order to design an appropriate strategy for the Fund that, by reducing the uncertainty of outcomes, should give the actuary greater certainty in the assumptions used for the 2019 triennial valuation.

2.2 In parallel with this, officers have been putting in place the necessary arrangements with the Fund's custodian for collateral management and related operational requirements as well as negotiating legal agreements with the framework managers. In order to conclude the investment management agreements, the Fund needs to amend its Investment Strategy Statement to include a specific reference permitting the use of derivatives in both pooled and segregated mandates. The proposed wording is consistent with the LGPS (Management and Investment of Funds) Regulations 2016 regarding the suitability of particular investments and types of investments.

2.3 Approval is sought for the Fund's Investment Strategy Statement to be revised to read:

"The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets."

3.0 RELEVANT RISKS

3.1 As with any insurance, equity option structures have a cost which will have the effect of reducing returns in the long term. The cost, purpose and duration of these strategies should be identified clearly before they are implemented.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Fund and actuary have consulted with the major employers in the Scheme to discuss the potential return and cost 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 The costs of the overlay structures were set out in January's report. The design, implementation and monitoring of the strategies will require additional officer resource. The overlay has the potential to deliver considerable short term benefit to employers through revised contribution rates.

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 implementation of the overlay strategy as outlined in the Mercer report.

13.2 That Members approve the revised wording for the Investment Strategy Statement.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 It is important that members are informed of strategic developments within the Fund.

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

APPENDICES

Mercer report.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

This page is intentionally left blank

WIRRAL COUNCIL

PENSIONS COMMITTEE

25 MARCH 2019

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 a copy of the draft response from the Northern LGPS to the consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling.

1.2 Approval is sought for a draft response by the Fund. An outline of key considerations is attached and a more detailed response will be provided at 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 In January, Committee was informed that MHCLG had issued draft statutory guidance on LGPS asset pooling. The guidance set out the requirements on administering authorities, replacing previous guidance, and built on previous Ministerial communications and guidance on investment strategies. It was an informal consultation with interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS. The consultation was to remain open for 12 weeks, closing on 28 March 2019.

2.2 As advised in January's report, the Northern LGPS has since been working with its advisors to draft an initial response to the guidance. The response reiterates that Northern LGPS remains supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance') and sets out the Pool's progress in meeting the criteria. Key achievements include:

- GLIL, the Pool's direct infrastructure vehicle, having around £1bn invested in eight UK infrastructure projects
- Procurement of an FCA regulated Pool custodian
- Establishment of the Northern Private Equity Pool last summer with five commitments amounting to £325m already made
- Performance and cost benchmarking against global comparators using CEM Benchmarking

2.3 The response also outlines concerns with the guidance including:

- The removal of the Value For Money criterion from the latest draft guidance
- The assertion that individual funds should be prepared to suffer an increase in their costs in order to benefit other funds in the pool or the wider LGPS. This is clearly at odds with authorities' fiduciary duty in managing their fund
- In the same vein, the assertion that elected members owe duties to parties other than their own funds and relevant stakeholders (employers and members) is also contrary to their fiduciary duties
- The requirement for all pools to have a FCA regulated company. This is seen as unnecessarily prescriptive
- More generally there is no evidence given in the consultation as to why the prescriptive requirements of the new guidance are beneficial to stakeholders

2.4 The full Northern LGPS draft response is attached as an appendix to this report.

2.5 A draft response by the Fund is also attached for approval.

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 as proposed in the new guidance will be substantially more than the existing intended arrangements.

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 draft response by the Fund.

14.0 REASON/S FOR RECOMMENDATION/S

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

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

APPENDICES

Draft response to the consultation by Northern LGPS

Draft response from MPF

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	

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank