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WIRRAL

Pensions Committee

Date:	**Tuesday, 16 July 2019**
Time:	**6.00 p.m.**
Venue:	Council Chamber - Birkenhead Town Hall

This meeting will be webcast at
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AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

2. MINUTES (Pages 1 - 6)

To approve the accuracy of the minutes of the meeting held on 25 March, 2019.

3. APPOINTMENT OF VICE-CHAIR AND REPRESENTATION AT NLGPS MEETINGS

4. AUDIT FINDINGS REPORT (Pages 7 - 22)

5. STATEMENT OF ACCOUNTS/LETTER OF REPRESENTATION (Pages 23 - 30)

6. DRAFT ANNUAL REPORT AND ACCOUNTS (Pages 31 - 110)

7. BUDGET OUTTURN 18/19, FINAL BUDGET (Pages 111 - 118)

8. WIRRAL COUNCIL MOTION (Pages 119 - 122)

9. LGPS UPDATE (Pages 123 - 146)

10. SCHEME PAYS POLICY (Pages 147 - 152)

11. SYSTEMATIC INVESTMENT (Pages 153 - 158)

12. AUTHORISED SIGNATORIES (Pages 159 - 162)

13. TREASURY MANAGEMENT ANNUAL REPORT (Pages 163 - 166)

14. POOL OPERATING AGREEMENT (Pages 167 - 208)

15. TRAINING & DEVELOPMENT OPPORTUNITIES (Pages 209 - 216)

16. WORKING PARTY MINUTES (Pages 217 - 228)

17. PENSION BOARD MINUTES 13/06/18 (Pages 229 - 236)

18. POOLING UPDATE (Pages 237 - 244)

19. 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.

20. POOLING UPDATE EXEMPT APPENDIX 2 (Pages 245 - 250)

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PENSIONS COMMITTEE

Monday, 25 March 2019

Present:	Councillor	P Doughty (Chair)	
	Councillors	G Davies P Cleary A Gardner P Hackett A Jones (dep for Cllr I Williams)	K Hodson T Jones B Kenny C Povall
	Councillor	Ian Byrne, Liverpool City Council	
		Roger Bannister, Unison retired member representative	
Apologies	Councillors	J Fulham, St Helens Council I Williams, Wirral Council	
		S Brunskill, Union Scheme Member representative	

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

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

Roger Bannister declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

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

Councillor Andrew Gardner declared a pecuniary interest by virtue of 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.

2 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held 21 January, 2019 be agreed.

3 **AUDIT PLAN**

Representatives from Grant Thornton UK, attended the meeting and presented the External Audit Plan for Merseyside Local Government Pension Scheme Year ended 31 March 2019.

Resolved – That;

1. Grant Thornton be thanked for the presentation on the Audit Plan.

2. the Audit Plan be noted.

4 **LGPS UPDATE**

Members gave consideration to a report of the Director of Pensions that provided 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. Yvonne Caddock, Head of Pension Administration, outlined the report to Members and noted a typographical error in paragraph 2.2 bullet point 6 that should read £12,851 and not £12,501 as stated in the report. Yvonne Caddock also outlined the implications of the McCloud Case referred to in the report.

Resolved – That;

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

5 **FAIR DEAL CONSULTATION**

A report of the Director of Pensions provided Members with details of the consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG) on 'New Fair Deal'.

Yvonne Caddock, Head of Pensions Administration, outlined the report to the Committee. Members were informed that the consultation related to the introduction of greater pensions protection for employees of LGPS employers who were compulsorily transferred to service providers. The consultation had been issued on 10 January 2019 with a request for consultation responses to be submitted by 4 April 2019.

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

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

A draft response was attached as an appendix to the report and officers sought Members' approval for submission to MHCLG.

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

Resolved – That;

1 the consultation document be noted and;

2 approval be provided for the formal response attached to the report to be submitted by 4 April 2019.

6 **PLSA LOCAL AUTHORITY CONFERENCE**

A report of the Director of Pensions requested 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.

Peter Wallach, Director of Pensions, informed Members that this was one of the headline conferences in the calendar. The PLSA Local Authority Conference was a specialist pension event for Local Authorities, designed to look at the ever-changing Local Government Pension Scheme.

Cost and complexities - governing the LGPS was the theme of Local Authority Conference 2019 – a topic with many angles, which would be fully discussed over the three days.

The report informed the Committee that the LGPS had 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 were taking 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 at the Conference.

The full agenda was attached as an appendix to the report and the Chair of the Committee, whilst acknowledging a clash with Mayor-making in Wirral Council, encouraged Members to attend.

Resolved – That the Director of Pensions circulate details of the PLSA Conference and that Members be encouraged to attend.

7 **RISK MANAGEMENT**

A report of the Director of Pensions informed Members of the progress made in relation to the design of an equity downside protection strategy for the Fund and

sought approval for the implementation of the structure outlined in the report from Mercer.

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

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).

It was reported that in January 2019, Committee had been informed of the appointment of a framework of investment managers able to implement equity downside protection strategies. Officers had 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.

In parallel with this, officers had 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. Members were informed that in order to conclude the investment management agreements, the Fund needed 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 was consistent with the LGPS (Management and Investment of Funds) Regulations 2016 regarding the suitability of particular investments and types of investments.

Members approval was 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."

Resolved – That;

1 the report be noted and the implementation of the overlay strategy as outlined in the Mercer report be approved.

2 the revised wording for the Investment Strategy Statement be approved.

8 **POOLING UPDATE**

Members gave consideration to a report of the Director of Pensions that provided 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.

Approval was sought for a draft response by the Fund. An outline of key considerations was attached to the report. 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).

In January 2019, Pensions Committee had been informed that MHCLG had issued draft statutory guidance on LGPS asset pooling. The guidance had 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.

Members were informed that, as advised in January's report, the Northern LGPS had since been working with its advisors to draft an initial response to the guidance. The response reiterated that Northern LGPS remains supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance') and set out the Pool's progress in meeting the criteria. Key achievements included:

- 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

The response also outlined concerns with the guidance as set out in the report and the Chair of the Committee provided a verbal update to the Committee and indicated that a meeting with the Minister for Housing, Communities & Local Government would be taking place, possibly at the beginning of April, when concerns would be set out.

Resolved – That;

1 the report be noted and;

2 the draft response to the consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling.by the Fund be approved.

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

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the

following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

10 **RISK MANAGEMENT - EXEMPT REPORT**

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

11 **POOLING UPDATE - EXEMPT REPORT**

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

12 **INTERNAL INVESTMENT MANAGEMENT - EXEMPT REPORT**

Members gave consideration to a report of the Director of Pensions. The report was exempt by virtue of paragraph 3.

Resolved – That the recommendations in the exempt report be approved.

Grant Thornton

The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2019

July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was undertaken on site during June and July. Our findings are summarised on pages 4 to 10. Subject to the completion of audit work we have not identified any adjustments to the financial statements that have resulted in a adjustment to the Pension Fund's reported financial position. Audit adjustments identified are detailed in Appendix A. As at this time our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters: - Obtaining the remaining confirmation letters/audited accounts from third parties (as at 4 July 2019 we have received approximately 70% of confirmations). - Following the recent decision by the Supreme Court to deny the government the right to appeal the Appeal Court's judgment that transitional arrangements in respect of changes made to the judges and firefighters' pension schemes were discriminatory on the basis of age implications and the probability that this will affect other public service schemes, the Fund has obtained a revised actuarial statement on the present value of retirement benefits that reflects the current position. However, we still need to review the updated statement and disclosures that might be impacted. - Review of the final set of financial statements. - Clearance of a small number of outstanding queries - Obtaining and reviewing the signed management representation letter; and, - updating our post balance sheet events review, to the date of signing the opinion. Our anticipated audit report opinion will be unqualified.

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the Pension Fund's benefits payable system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019 but as part of our work on disclosures we have discussed the potential impact upon the Fund' of the McCloud judgement..

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Wirral Council Audit and Risk Management Committee meeting on 22 July 2019.

Our approach to 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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Merseyside Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£85.00m	Considered to be the level above which users of the accounts would wish to be aware of misstatements, in the context of overall expenditure – calculated as 1.0% of prior year (2017-18) net assets.
Performance materiality	£63.75m	Assessed to be 75% of financial statement materiality.
Trivial matters	£4.25m	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.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension 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 Council as the administering authority, 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. Our audit work has not identified any matters that would indicate the rebuttal was incorrect.
2	**Management override 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. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of unusual significant transactions. Our audit work to date has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues. **At the time of writing our work on journals testing is still to be completed.**
3	**The valuation of Level 3 investments is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • consideration of the competence, expertise and objectivity of any management experts used. • for a sample of investments, tested 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. Our work to date has not identified any significant issues in respect of this risk. **At the time of writing our work on Level 3 valuations is still to be completed. Specifically we need to obtain the remaining confirmation letters/audited accounts from third parties (as at 4 July 2019 we have received approximately 70% of confirmations).**

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in direct property, unquoted investments and pooled investments that in total are valued on the balance sheet as at 31 March 2019 at £2.451bn. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management engage the services of a property valuer for direct property and rely on the valuations provided by the general partners to the private equity funds which the Fund invests in. The value of the investments has increased by £260m in 2018/19, largely due to acquisitions and improvements in market conditions.	Management determine the value of Level 3 Investments through placing reliance on the expertise property valuer and the investment managers. As such we have sought confirmations of year end valuations from all main mandate managers and send a letter to the valuer to understand his skills, competence and independence from the Fund in valuing the property. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable. We have found no issues with this testing and are satisfied that the estimate is appropriately disclosed in the accounts. **Our work on level 3 investments is still ongoing. At the time we need to obtain the remaining confirmation letters/audited accounts from third parties (as at 4 July 2019 we have received approximately 70% of confirmations).**	
Level 2 investment	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2019 at £2.435bn. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers. The value of the investment has increased by £24m in 2018/19.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We have found no issues with this testing and are satisfied that the estimate is appropriately disclosed in the accounts. **Our work on level 2 investments is still ongoing at the time of writing this report as we are still awaiting confirmations of valuations and to complete our sample testing.**	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings - other issues

Issue	Commentary	Auditor view
Potential impact of the McCloud judgement		
The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on changing benefits i.e. the 2012 underpin for the LGPS.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Fund has requested a updated statement from the actuary which accounts for the impact of the McCloud ruling and this will be included in the updated final set of accounts. The updated actuary statement includes an amount of £78m for the estimated impact on increased liabilities due to the McCloud ruling.	Since the fund adopts option C in relation to disclosing the actuarial present value of retirement benefits, this issue forms part of our assessment of the 'Other Information' issued alongside the accounts, as opposed to being covered by our audit opinion on the accounts. We anticipate that the potential impact of the McCloud judgment will be reflected within the wording of the updated actuary's statement. We will need to review the statement but we anticipate that the wording will be such that a reader of the accounts will understand the position and not be mislead. The 2019 Triennial Valuation of the actuarial present value of promised retirement benefits is expected to include the impact of the McCloud judgment. This should be available following the conclusion of the 2019 actuarial funding valuation and be available for the 2019/20 financial statements. **At the time of writing we still need to perform work on understanding the assumptions applied by the actuary in the updated liability calculation.**

Other matters discussed with management - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	• We are satisfied that management's assessment that the going concern basis is appropriate for the 2018/19 financial statements.

Work performed	Auditor commentary
We have assessed the judgment made by management as well as the forecasted financial information which they have provided us which supports the assessment that the Fund will continue as a going concern for at least 12 months from the date of our audit opinion.	• The Net Assets of the Fund at 31/3/19 were £8.6bn. This is approximately 25-30 times the annual benefit payments due. • The Fund has £4.4bn of Level 1 assets. These assets are liquid and can be accessed quickly for cashflow purposes if required. • The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme. • No issues have been identified from the work performed

Concluding comments	Auditor commentary
	We are satisfied that management's assessment that the going concern basis is appropriate for the 2018/19 financial statements and that we have nothing to report on in relation to going concern.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Pension Fund which is included in the Pensions Committee papers. We are in discussions with management over requesting specific representations over the M&G valuation due to the likelihood that we will not receive the ISAE 3402 controls report before the deadline to sign the accounts.
5	**Confirmation requests from third parties**	• We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. We have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report along with our opinion on the accounts.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed are below.

Audit Fees	Proposed fee	Final fee
Pension Fund Audit	£28,399	£28,399
Total audit fees (excluding VAT)	**£28,399**	**£28,399**

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified:

	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£TBC (We are in discussions with PSAA in respect of charging £500 per letter)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is relatively small in comparison to the total fee for the audit of £28,399 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The Fund has accrued for a fee of £2,180 for IAS 19 work. The amount to be recharged is to be confirmed but we are satisfied that the amount disclosed in the accounts would only differ from that which would be recharged by an insignificant amount .
Non-audit related			
None			

These services are consistent with the Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	None identified to date			
	Overall impact			

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Fair Value Classification of Bond incorrect	Per note 14a of the accounts £665m of UK Public Sector Quoted Bonds have been incorrectly classified as Level 2 in the fair value hierarchy. This investment has fully observable inputs and so should be recorded as Level 1 in the fair value hierarchy.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Wirral Council Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
1	None identified to date				
	Overall impact				

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
None				

Audit opinion

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

Independent auditor's report to the members of Wirral Council on the pension fund financial statements of Merseyside Pension Fund

Opinion

We have audited the financial statements of Merseyside Pension Fund (the 'pension fund') administered by Wirral Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and Notes to the Merseyside Pension Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Investment (S151)'s use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance and Investment (S151) has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Director of Finance and Investment (S151) is responsible for the other information. The other information comprises the information included in the Authority's Statement of Accounts 2018/19, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Authority's Statement of Accounts 2018/19, for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Investment (S151) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance and Investment (S151). The Director of Finance and Investment (S151) is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Investment (S151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance and Investment (S151) is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Risk Management Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**STATEMENT OF ACCOUNTS 2018/19 – MERSEYSIDE PENSION FUND AND LETTER OF REPRESENTATION**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE & INVESTMENT (S151)**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2018/19 and to respond to the Audit Findings Report from Grant Thornton.

1.2 Subject to outstanding work, Grant Thornton has indicated there will be an unqualified opinion and there are no adjustments affecting the Fund's reported financial position for the year ended 31 March 2019 of net assets of £8.9bn and no recommendations.

1.3 The one misclassification identified by Grant Thornton within the fair value hierarchy disclosure note has been agreed and amended.

1.4 During the audit period the Fund obtained a revised actuarial statement on the value of retirement benefits that reflects the McCloud position.

2.0 BACKGROUND AND KEY ISSUES

2.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2019 in accordance with prescribed guidance.

2.2 The Statement of Accounts, including notes were prepared and available for audit by 31 May 2019, in compliance with statutory deadline for 2018/19 reporting.

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

2.4 There are no adjustments affecting the Fund's reported financial position for the year ended 31 March 2019 of net assets of £8.9bn. One

misclassifications within the fair value hierarchy disclosure note 14a and a small number of disclosure adjustments to improve the presentation of the financial statements and annual report have been agreed.

2.5 The one misclassification within the fair value hierarchy has been corrected and controls strengthened to prevent reoccurrence.

2.6 During the audit period the Fund obtained a revised actuarial statement on the value of retirement benefits that reflects the McCloud position. In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

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

2.9 The Audit Opinion will be issued following final completion of the audit, consideration of the Audit Findings Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee. Once approved, Grant Thornton has indicated that they will again issue an unqualified opinion, and state that the accounts present fairly the financial position of Merseyside Pension Fund as at 31 March 2019. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2019.

3.0 RELEVANT RISKS

3.1 Not relevant for this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

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

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

13.0 RECOMMENDATION/S

13.1 That Pensions Committee approves the audited Statement of Accounts for 2018/19, considers the amendments to the accounts, the Audit Findings Report and the Letter of Representation.

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

14.0 REASON/S FOR RECOMMENDATION/S

14.1 As required by International Standard on Auditing (UK) 260 and the Code of Audit Practice, the Auditor reports its findings on the audit of the Pension Fund Financial Statements to those charged with governance.

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

REPORT AUTHOR: Donna Smith
Head of Finance & Risk
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

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

BACKGROUND PAPERS/REFERENCE MATERIAL

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

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
PENSIONS COMMITTEE	
AUDIT AND RISK MANAGEMENT COMMITTEE	**23 July 2018**
PENSIONS COMMITTEE	**16 July 2018**
AUDIT AND RISK MANAGEMENT COMMITTEE	**25 SEPTEMBER 2017**
PENSIONS COMMITTEE	**17 JULY 2017**
AUDIT AND RISK MANAGEMENT COMMITTEE	**26 SEPTEMBER 2016**
PENSIONS COMMITTEE	**19 SEPTEMBER 2016**
AUDIT AND RISK MANAGEMENT COMMITTEE	

Business Management

Shaer Halewood
Director of Finance and Investment
PO Box 290,
Brighton Street,
Wallasey,
Wirral,
CH27 9FQ.

to Grant Thornton UK LLP
Liver Buildings
Liverpool
L3 1PS

date 22 July 2019

my ref

Dear Sirs

Merseyside Pension Fund
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Merseyside Pension Fund ('the Fund) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, other than liabilities to pay pensions and benefits after the end of the Fund year, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

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

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

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

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

xi. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

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

Information Provided

xv. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

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

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

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

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

   a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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

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

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

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

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

xxvi. At this point, we have not received the M&G ISAE 3402 Type II service auditor controls report, however based on our governance arrangements during the year we do not have any concerns that the valuation of the related investments are materially misstated.

Approval

The approval of this letter of representation was minuted by the **Pensions Committee** at its meeting on **16 July 2019** and by the **Audit and Risk Management Committee** at its meeting on the 22 July 2019.

Yours faithfully

Name Shaer Halewood ……

Position Director of Finance & Investment (S151).

Date 22 July 2019.

Name……

Position Chair of Audit & Risk Committee .

Date 22 July 2019.

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

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the draft Annual Report of Merseyside Pension Fund for 2018/19.

2.0 BACKGROUND AND KEY ISSUES

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

2.2 International Standards on Auditing (UK&I) 810 (revised) requires that auditors read any information published with the accounts. It also states that the auditor should not issue an opinion until that other information is published.

2.3 The Fund's Statement of Accounts and the auditor's Audit Findings Report are separate items on this agenda and provide additional assurance that the annual report has been subject to independent scrutiny.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

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

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Regulation 57 of the Local Government Pension Scheme (LGPS) Administration Regulations requires local authorities to produce an Annual Report for the year to 31 March by 1 December of that year.

REPORT AUTHOR: **DONNA SMITH**
Head of Finance & Risk
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

Draft Annual report

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

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Merseyside Pension Fund

Report & Accounts 2018/19

Draft for Pensions Committee 16 July 2019

Contents

Management Structure At 31 March 2019

Administering Authority - Wirral Council

Pension Fund Management Committee

Chair:
Cllr Paul Doughty Wirral

Vice Chair:
Cllr George Davies Wirral

Cllr Pat Cleary Wirral
Cllr Andrew Gardner Wirral
Cllr Pat Hackett Wirral
Cllr Kathy Hodson Wirral
Cllr Tony Jones Wirral
Cllr Brian Kenny Wirral
Cllr Cherry Povall, JP Wirral
Cllr Irene Williams Wirral
Cllr Jayne Aston Knowsley
Cllr Ian Byrne Liverpool
Cllr Pauline Lappin Sefton
Cllr John Fulham St Helens

Employee Representatives (Non-voting)
Roger Bannister UNISON
Sarah Brunskill UNISON

Officers of the Fund
Yvonne Caddock **Head of Pensions Administration**
Shaer Halewood **Director of Finance & Investments**
Colin Hughes **Group Solicitor**
Donna Smith **Head of Finance & Risk**
Peter Wallach **Director of Pensions**

Advisors to Investment Monitoring Working Party
Director of Pensions
Senior Portfolio Manager
Aon Hewitt
Noel Mills
Rohan Worrall

Local Pension Board
Independent Chair:
John Raisin

Employer Representatives:
Kerry Beirne
Geoff Broadhead
Mike Hornby
Lynn Robinson

Member Representatives:
Roger Irvine
Patrick Moloney
Donna Ridland
Paul Wiggins

Advisors to Governance & Risk Working Party
Director of Pensions
Head of Pensions Administration
Head of Finance & Risk

Others
Auditor
Grant Thornton

Bankers
Lloyds Banking Group

Consultant Actuary
Mercer HR Consulting

Strategic Investment Consultant
Aon Hewitt

Custodian of Assets
Northern Trust

Responsible Investment Advisors
Pensions and Investment Research Consultants Ltd

Property Advisors
CBRE Capital Advisors

Property Managers
CBRE Asset Services

Property Valuers
Savills

Performance Measurement
Northern Trust

Solicitor
Wirral Council

AVC Providers
Equitable Life Assurance Society
Standard Life
Prudential

LGPS Investment Pool
Northern LGPS (with GMPF and WYPF)

Chair's Introduction

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2019. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months, as well as providing general information regarding the pension scheme.

The Overall Aim of the Fund

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

Investments and Performance

Robust global growth supported the investment climate over the year; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk. Looking across the year to the end of March 2019, the major asset classes on the whole delivered a positive performance with the Fund gaining 5.64% overall. More detail is provided in the ***Investment Report*** including information on the distribution of assets and performance.

Sustainability continues to be a very important investment consideration. The Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. We are now implementing the next stage of our Climate Risk Strategy which entails reducing exposure to investments that are connected to climate change. In January 2019, the Fund joined forces with global index, data and analytics providers, FTSE Russell, to develop a more sustainable and environmentally-equitable investment strategy. This collaboration resulted in the creation of a bespoke index; the FTSE All-World Climate Balanced Comprehensive Factor Index, which sits within FTSE's Smart Sustainability Index series. £400 million was invested into this new strategy.

As part of the review of our investment strategy, the Fund is using climate scenario analysis to further articulate its investment beliefs on climate and to shape these into investment strategy goals. We welcome the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) (recently presented formally to the G20) and have committed to including a TCFD statement in our financial reporting.

Merseyside Pension Fund continues to engage appropriately with the fossil fuel companies in its ownership to require that they adequately review and align their business models towards transition to a low carbon economic future. The engagement is carried out collaboratively, and informed and shaped by Carbon Tracker and the Transparency Pathway Initiative.

The Fund continues to deploy capital at scale into renewable energy, primarily through its investments in Infrastructure and has more than £200 million invested in wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

Actuarial Valuation

A triennial valuation commenced at 31 March 2019. Whilst calculations of the Fund's liabilities are still being finalised by the actuary, initial indications are that the funding level has improved significantly from the March 2016 level of 84.8%. The Fund's assets have increased in value to £8.88 billion. Strategies to 'lock in' some of gains that have been achieved are being implemented.

Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the ever evolving Scheme.

We have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, deferred members and pensioners. The Fund's websites continue to be updated regularly and we are encouraging greater use of electronic media to enhance security and efficiency of information exchange.

The Annual Employers' Conference was held at Aintree Racecourse in November 2018. The event was well attended and featured speakers from the Scheme Advisory Board, the actuary and officers of the Fund.

Past Changes and the Future

Investment Pooling remains a primary focus for the Fund. Good progress has been made in the development of the Northern LGPS. In January, the Ministry of Housing, Communities & Local Government informally consulted on new draft guidance which will now be the subject of a formal consultation.

Pooling is a significant undertaking, and will result in fundamental changes to the oversight of LGPS assets. It is essential that appropriate governance arrangements are in place.

LGPS Amendment Regulations became operational on 14 May 2018. One principal provision afforded members with deferred benefits, solely related to the former final salary scheme, early access to their benefits from age 55. Another permits the payment of exit credits to 'exiting employers' in certain, specified circumstances.

In September, the government announced proposals to align the existing LGPS triennial Scheme valuation cycle with the quadrennial valuations of other public service pension schemes, which is the mechanism used to assess and manage the costs of pensions. Significantly, the Treasury's cost management process has been 'paused' whilst an application to appeal the McCloud case to the Supreme Court is considered. If the government fails in its appeal, appropriate remedies will need to be offered which will increase the cost of benefits.

Further details of current and proposed legislative changes are provided in the ***Scheme Administration Report***.

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

Preparation of Report

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

Councillor Pat Cleary
Chair, Pensions Committee
June 2019

Management Report

Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Pat Cleary who succeeded Councillor Paul Doughty when he relinquished the role at the May 2019 elections.

In 2018/19, the Committee comprised Councillors from the Wirral Labour group (6), Conservatives (3), Green Party (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton) and employee representatives (3). The Director of Finance & Investment, the Director of Pensions and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) provide further information on the Fund's investment philosophy and investment framework.

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

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

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

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

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

Risk Management

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

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

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

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

Copies of these documents are available from the Fund and are published on the Fund website at: **mpfund.uk/risk**

In addition, the Fund maintains a risk register and a compliance manual for its employees.

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

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

Knowledge and Skills

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

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

The Pensions Committee has designated the Director of Pensions to be responsible for ensuring that policies and strategies are implemented.

Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to, and approved by, the Pensions Committee. The Fund develops its Pensions Committee members and officers, through training and education. This includes regular meetings, ad hoc seminars and conferences, bespoke training and e-learning.

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

This year, the Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. It also undertook surveys of its stakeholders including members of the Pensions Committee and the Pension Board to inform revisions to its Investment Beliefs and development of its Climate Risk Strategy. Climate change and climate risk were identified as areas of development and Members received a range of presentations and briefings on the topic including from FTSE Russell, Aon and the internal UK equity manager. Presentations were also received on Liability Driven Investment in preparation for the implementation of a bespoke LDI mandate for a Scheme employer.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed in ***Appendix B***.

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee has traditionally been a member of the Executive Board, attending regular meetings covering many aspects of responsible investment.

Training opportunities provided during the year were as follows:

Month	Event
June	FTSE Russell Carbon Risk Management
June	CEM Performance, Risk & Cost Measurement
September	Climate Change
November	Liability Driven Investment
November	Climate Risk - Decarbonisation
March	Aon – RI survey feedback/investment strategy review process

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

Pension Board Report

Local Pension Boards (LPB) were established across the Local Government Pension Scheme with a requirement to become operational from 1 July 2015 to assist administering authorities in their role as managers of the Scheme.

Statement of Purpose for the Merseyside Local Pension Board

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

- secure compliance with the Regulations , any other legislation relating to the governance and administration of the Scheme, and requirements imposed by The Pensions Regulator (TPR) in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by TPR. There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

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

Constitution/Management arrangements

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

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

Additional information is included in the Board's Terms of Reference available on the Fund's website at:
mpfund.uk/lpbterms

Executive Summary

The Board has worked with officers to provide Wirral Council with additional assurance regarding the operation of the Fund. As evidenced in the Board's work plan, the Board has undertaken a rigorous assessment of pooling developments and its implications for the administering authority.

It continues to remain abreast of regulatory developments, the activities of TPR and to scrutinise the performance of the Fund, particularly in relation to its administrative functions.

The Chair made a presentation on the Board's activities to the Pensions Committee.

Three meetings were held during the year. In addition, a detailed training programme was undertaken involving internal and external training. Board members have attended Working Parties to gain greater familiarity with the activities and procedures of the Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables below.

Board Changes

Post the financial year end, both Ms Kerry Beirne and Mr Mike Hornby decided to step down from the Board. Both made a significant contribution to the effectiveness of the Board and we would want to record our thanks to them.

Issues considered by the Pension Board 2018-19

Agenda Item	13 June	16 October	27 Mar
LGPS Update	•	•	•
Administration KPI Report	•	•	•
Pooling Update	•	•	•
Draft Funding Strategy Statement		•	
Member Development Programme			•
Pension Fund Budget		•	•
Interim Actuarial Valuation		•	
Treasury Management Strategy			•
Treasury Management Annual Report		•	
Working Party minutes	•	•	•
Fair Deal Consultation			•
Draft Annual Board Report	•		
Liability Risk Management			•
Audit Findings Report, Annual Report & Accounts		•	•
Management of Carbon Risk		•	•
Draft Communications Strategy	•		
Audit Plan	•		•
Draft Data Protection Policy & GDPR Update	•		
Engagement with the Pensions Regulator	•		
Gifts & Hospitality	•		
Monitoring of Investment Mandates & Governance	•		
Property Arrears	•		
Audit Programme	•		
Pension Board revised Terms of Reference			•

A work plan for 2019/20 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies.

Pension Board Work Plan 2019-20

Agenda Item	17 Jul	12 Nov	5 Feb	1 Apr
LGPS Update	•	•	•	•
Administration KPI report	•	•	•	•
Pooling Update	•	•	•	•
Audit Plan				•
Member Development Programme			•	
Pension Board Development Programme			•	
Working Party minutes	•	•	•	•
Pension Board Annual Report		•		
Investment Performance		•		
Audit Findings Report	•			
Annual Report & Accounts	•			
Pension Fund Budget	•		•	
Actuarial Valuation (outcome)				•
Revised Funding Strategy Statement				•
Business Plan	•			
Governance Statement				•
Internal Audit Annual Report	•			

Attendance & Training record

	Pension Regulator Public Sector	LGPS Trustee Training Day	Trustee Steps Training	PLSA Conference	Trustee Training Birmingham	LGPS Local Pensions Board Conference	Trustees Knowledge Seminar	Celtic Manor LGC Investment Summit	PLSA Annual Conference & Exhibition 2018	Local Authority Update	CIPFA Annual Pension Conference	MPF Annual Conference	LGPS Governance Conference	RI Event Aintree	Investment Conference	Pension Board Meetings		
		Oct/Nov Dec	17 May	21-23 May	15 Jun	27 Jun	4 Sep	6-7 Sep	17-19 Oct	6 Nov	22 Nov	29 Nov	17-18 Jan	23 Jan	6 Mar	13 Jun	16 Oct	27 Mar
John Raisin	●					●					●	●		●		●	●	●
Geoff Broadhead	●											●				●		●
Kerry Beirne	●						●					●				●	●	
Mike Hornby	●							●				●		●		●	●	●
Roger Irvine	●		●	●	●		●		●	●		●			●	●	●	●
Pat Moloney	●	●							●			●	●	●		●	●	●
Donna Ridland	●			●					●			●	●	●		●	●	●
Lyn Robinson	●	●														●	●	●
Paul Wiggins	●											●				●		●
*Retired																		

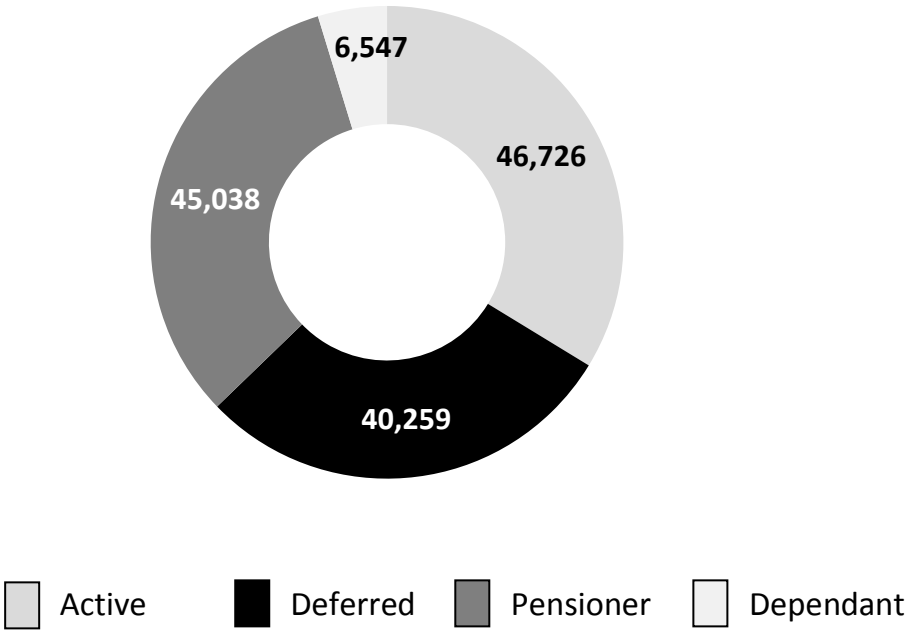
Costs of Operation

	2018/19
	£
Conference	3,712
Travel	1,589
Allowances	13,309
Other	1,019
Total	**19,629**

There have been no matters of concern to raise with Wirral Council, the Administering Authority. A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 3 February 2020.

Membership Statistics

Membership as at 31 March 2019



Number of Members by Age Band

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active				367	1,666	2,985	3,759	4,641	4,797	6,850	8,352
Deferred				9	287	1,641	3,735	4,652	4,711	6,619	8,927
Pensioner							4	14	28	177	422
Dependant	2	12	53	95	66	7	18	15	24	73	150

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	7,778	4,385	963	183							**46,726**
Deferred	7,413	1,949	254	53	9						**40,259**
Pensioner	3,227	9,119	10,520	9,285	5,712	3,749	1,938	688	143	12	**45,038**
Dependant	318	445	660	947	999	1,099	939	481	130	14	**6,547**
										Total	**138,570**

Key Membership Statistics 2014 - 2018

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2019	46,726	40,259	45,038	6,547	**138,570**
31 March 2018	49,151	38,376	43,495	6,665	**137,487**
31 March 2017	47,206	38,368	42,194	6,571	**134,339**
31 March 2016	46,221	37,136	41,136	6,588	**131,081**
31 March 2015	45,420	36,237	39,915	6,682	**128,254**

Scheme Administration Report

The Administration Team

The main focus over the year has been to engage with our stakeholders in order to comply with regulatory requirements, adhere to principles of industry best practice, and to increase operational capacity to improve outcomes for the membership and employer base.

A number of advances have been made to our digital transformation programme to deliver efficiencies and improve customer experience in accessing Fund services. This has been achieved through the further development of bulk information exchanges and investment in our online 'My Pension' portal to assist the internal administration team and the Fund's employers to comply with the Pensions Administration Strategy.

Aligned with the objective of improving customer experience, work has been scheduled to review our customer surveys and the Fund's website to ensure we provide the information and support necessary to meet customer needs.

Over the reporting period the Fund has experienced an increase to its employer base, as many employers continue to undergo organisational change and restructure their workforces in response to financial pressures, leading to changes in service delivery models. We have worked closely with a number of employers on change initiatives such as mergers and significant outsourcing/insourcing. Our employer base is now in excess of 200, with the number growing further as academisation of schools and outsourcing continues at pace.

Furthermore, the increase in the number of third-party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer to the processing and provision of data. A list of the participating employers is shown at ***Appendix A***.

The Administration team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members with regard to the effectiveness and demonstrable value for money of the administrative function.

Statutory Framework of LGPS

The Scheme is a public service pension scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG). It is a contributory defined benefit scheme which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants; along with ill health, redundancy and death cover.

The Scheme was formerly contracted-out of the additional State Pension until the introduction of the new single-tier State Pension on 6 April 2016, which as a matter of course, resulted in the ending of the Scheme's contracted-out status and an increase in National Insurance costs for both employers and members.

LGPS2014 - Scheme Design

On 1 April 2014, the career average revalued earnings (CARE) scheme was implemented and replaced the final salary scheme in respect of future accrual of pension benefits.

The LGPS:

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

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

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

Legislative Change

During 2018, two sets of amendment regulations were issued to update a number of technical provisions, extend automatic access of deferred benefits and to improve survivor benefits as a result of challenges in the Supreme Court. In addition the regulations introduced a number of changes with regard to the management, governance and funding of employers.

The Local Government Pension Scheme (Amendment) Regulations 2018

The Amendment Regulations came into force on 14 May 2018 with the key revisions relating to the administration of members' benefits as follows:

- The extension of automatic entitlement to deferred benefits from age 55 for members who left the Scheme between 1 April 1998 and 1 April 2014 in parity with those who left the Scheme on or after 1 April 2014.

- The harmonisation of AVC contracts entered into before 1 April 2014 with those entered into post April 2014, excluding AVC provisions where the member left the Scheme prior to April 2014.

- The technical amendments include provisions to clarify the definition of local government service and the calculation of assumed pensionable pay in accordance with the policy intent.

The **main** change relating to Fund employers is:

- The potential for payment of an exit credit where an employer ceases participation of the Scheme and the final actuarial assessment results in a funding surplus. Consequently there will need to be greater engagement with employers accessing the Scheme by virtue of an outsourced service relating to the terms of the commercial arrangements and attribution of pension risk.

The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018

The Miscellaneous Amendment regulations came into force on 10 January 2019 and provided measures to:

- introduce a general power for the Secretary of State to issue statutory guidance
- make a technical amendment to allow early access to benefits from age of 55 for deferred members who left before 1 April 1998
- address the challenges in the Supreme Court relating to the inequitable payment of survivors' benefits to registered civil partnerships or same sex marriages and uprate benefits in relevant cases to replicate those provided to widows.

Cost Management and Review of Benefit Structure

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.

The Scheme Advisory Board (SAB) is responsible for facilitating the review of the cost of the Local Government Pension Scheme and for advising the Secretary of State on any proposed changes to the benefit structure to maintain the ongoing sustainability of the Scheme.

The review of the 2016 Valuation Results by the Government Actuary Department determined that the cost of the LGPS is now below the 19.5% future service target cost. In line with the process, changes were proposed to the benefit structure which would take effect from 1 April 2019.

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.

On 30 January 2019 the government announced a pause in the HM Treasury cost cap process within the public sector due to uncertainty caused by a court ruling on transitional protections given to members of the Schemes who in 2012 were within 10 years of their normal retirement age (McCloud case). Following this, the SAB paused the LGPS cost management process pending the outcome of the case. As a result, there are currently no benefit changes planned in respect of the cost cap and the situation will be reviewed once McCloud is resolved, which is not expected to be for some months.

Impending Changes

Further Scheme-wide change is imminent due to the introduction of the £95k ‘exit cap’ and the outcome of the SAB review of the LGPS cost management process. In addition, the result of the Board’s review of the merits in standardising the administration and funding of academies, along with the appropriate arrangements for the risk management of Tier 3 employers, is expected shortly. The Fund will continue to plan and adapt to changes as they are introduced, keeping members and employers updated through a program of regular briefings and customer engagement.

Scheme Consultations

Over the year the Fund continued to respond to consultations on policy matters relating to the amendment of the Scheme’s design, including the most recent consultation on the Fair Deal provisions, along with the implementation of new late retirement factors.

New Fair Deal

Originally introduced in 1999, New Fair Deal proposes to protect the rights of public sector employees on transfer to a private sector employer as a result of the outsourcing of services. In January 2019, a further consultation was issued on the assimilation of New Fair Deal policy into the LGPS. The proposals present significant change including a new category of employee known as a “protected transferee” whereby the contracting employer will be required to enter into an admission agreement with the LGPS Fund, along with a new status of a “deemed employer” as an alternative to an admission body.

The Fund’s response highlighted its agreement with the intent to provide guaranteed access to the LGPS for members transferred under TUPE, but noted the need for prescriptive guidance to deal with the administrative, funding and accounting implications in order that decisions reached by employers can be implemented effectively.

Late Retirement Factors

MHCLG launched a short consultation on the implementation of new late retirement factors and methodology during March 2019.

The Fund responded to the consultation, raising concern that the formula was overly complex and would pose a challenge in communicating the additional benefit in remaining in the Scheme after normal pension age.

In addition, it was highlighted that, if the formula is retained, the implementation date should be arranged to ensure system providers have had enough time to deliver software updates to avoid the necessity of manual calculations.

Key Projects & Developments

Statutory Disclosure Exercise

In compliance with statutory disclosure requirements, a bulk communication was issued mid-July to all deferred beneficiaries informing members of the material change in the Amendment Regulations permitting early access rights for deferred benefits built up in the final salary scheme, from 14 May 2018; along with information relating to the amendments to equalise pre and post 2014 AVC arrangements.

The letter raised awareness that the 2018 Deferred Annual Benefit statement was available on My Pension online and encouraged members to register for access to the system.

Interim Valuation Position

In the years between full actuarial valuations, the Fund's actuary is asked to undertake interim valuations to assess the approximate financial position of the Fund. As part of the interim assessment, key factors such as asset values, and liabilities based on current market conditions, are updated from the last full Valuation.

The estimated funding level at 31 August 2018 was 96**%** which is materially ahead of the declared funding position of 85% at 31 March 2016. The improved position is largely due to the upward trend in equity markets since 31 March 2016. However as the future market outlook is less certain there is a strong likelihood of a higher future service rate being certified at the 2019 valuation.

The analysis undertaken by the actuary revealed a number of data anomalies and a collaborative exercise between the Fund and employers commenced in year to resolve the data gaps. This activity will reduce the requirement for the actuary to take conservative margins when certifying the contribution schedules for the 2019 triennial valuation.

Data Quality and Preparation for Triennial Valuation

The Fund's data team has worked closely with the actuary, Mercer, to undertake comparative analysis on how both parties evaluate data held at the Fund, to identify any data gaps which would have an adverse impact on the robustness of the final valuation extract and the production of statutory statements.

This partnership proved highly beneficial for the Fund and highlighted areas where working practices could be improved, along with further measures to introduce greater robustness in reporting practice and engagement with employers on data matters, including improvement plans.

A data reconciliation exercise was undertaken in September, providing all employers with a snapshot of active memberships, an overview of outstanding queries and documentation identified by the Fund.

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

In parallel to requesting outstanding data, the Fund is addressing the high number of outstanding deferred cases and death cases without contingent benefits to ensure the liability position is accurate at the Valuation date.

Annual Return Process and Statutory Annual Benefit Statements

A key objective during the year was to ensure the timely receipt of employer contribution returns and the production of Annual Benefit Statements within the 31 August deadline.

As a result of proactive engagement between the Fund and employers there was a significant increase in the number of employers submitting timely annual return files. Although ten employers were subject to financial penalties for failing to submit a completed year-end return in accordance with timescales documented within the Pensions Administration Strategy.

The Annual reconciliation of member data makes it difficult to achieve the 31 August deadline to produce benefit statements. This is due to the processing of large volumes of data within a limited timeframe and the need to identify gaps in information provided by employers.

Unfortunately, following instruction by the Pension Board in October 2018, it was necessary to file a report with the The Pensions Regulator (TPR) as we only issued 90% of annual benefit statements to active members.

In engaging with the Regulator we shared the ongoing work streams being undertaken to improve data quality and to demonstrate our commitment to meet the statutory deadline to issue all members with a statement in the future. As a result, TPR was satisfied with the measures being undertaken and decided to take no further regulatory action at this time.

To overcome the challenges of annual data returns and to maximise future benefit statement production, the Fund has commenced partnership working with its largest employers on a two-year staged project, to transition data collection from an annual to a monthly basis, along with the attendant quality assurance procedures.

The Pension Regulator Compliance Programme and Oversight of Administration Function

The Public Service Pensions Act 2013 placed the external scrutiny function of the LGPS under the remit of TPR with effect from 1 April 2015. The objective was to enhance the governance framework and increase the transparency of the Administering Authority's accountability for the management and administration of the Scheme. This is influenced, regulated and monitored respectively by the:

- Local Pension Board, who assist the administering authority to manage the effective governance of the Fund and ensure compliance with statutory requirements including TPR Code of Practice for Public Service Pension Schemes.
- Administering Authority's Internal and external auditors.

During September 2018,TPR launched a new operating model to regulate workplace pension schemes and drive-up standards. As the pensions landscape no longer supports the former "educate, enable and enforce" approach, the new model is scheduled to take effect over the next twelve to eighteen months.

The link to the publication outlining the new operating model is: **mpfund.uk/tprfuture**

The key to the new approach is the introduction of a supervision regime to monitor schemes more closely, which will include higher and lower intensity interventions depending on the risks identified.

The four key elements of the new operating model are to;

- set clear expectations and measurable standards
- identify risk early to prevent escalation by early proactive intervention
- drive compliance through supervision and enforcement leading to behavioral change
- work with regulatory partners to achieve a consistent regulatory framework.

LGPS Cohort Working with The Pensions Regulator (TPR)

TPR's 2018-2021 Corporate Plan includes a project to engage with cohorts of LGPS administrators and in partnership with the Metropolitan Pension Fund Group (Mets) the Fund has proactively approached TPR to understand their key concerns and receive guidance from TPR to develop best practice amongst the group.

An initial meeting with TPR took place in February 2019 to discuss the proposal for engagement and potential outcomes. The intent is to inform TPR of the operational challenges in administering the Scheme, explore ideas and gauge the direction of travel for the increasing scrutiny of the LGPS.

It is envisaged that this engagement will continue on a six-monthly basis with interim discussions and exchange of information as required.

In operating as a collective, the aim will be to increase consistency and efficiency amongst the individual Funds and to provide assurances to those charged with governance that the Fund is operating within the industry wide legislative framework and standards set by TPR.

One measure to achieve this aim is to form a Peer Review Framework amongst the group, whereby there would be a systematic review of individual fund's procedures, documentation and control mechanisms to ensure a consistent basis in demonstrating compliance against Code of Practice 14.

Collaboration with Peer Funds, Scheme Employers and National Bodies

During 2018/19 officers worked closely with a number of other LGPS Funds on specific projects via the LGA informally sharing ideas and best practice on various matters. We have committed to be a founder member of the National LGPS Framework, which streamlines and improves procurement within the public sector, and have participated in the review of many existing and new frameworks for services.

In addition, we have engaged at a national level with the LGPS Scheme Advisory Board, the Chartered Institute of Public Finance and Accountancy and the Government Actuary on administration and funding matters. This engagement has enabled us to keep pace with LGPS and pensions industry practice and represent the Fund's views and those of its stakeholders in the wider arena.

Our large employer Pension Liaison Officer Group forums have provided valuable feedback during the year and served as a useful resource to the Fund in establishing realistic operational procedures when introducing service improvements and regulatory change.

These employer forums are important as they enable Fund officers to cover topical issues and share information on planned activity and service developments.

Updated GAD Factors

During the year we have updated systems to respond to changes in actuarial factors and calculation specifications covering early retirements, transfers, pension debits and trivial commutation following changes to the government's SCAPE discount rate in the autumn budget.

Review of Fund Policies

<u>Funding Strategy Statement</u>

Following the revisions to the regulations in May 2018, the Funding Strategy Statement (FSS) was updated to reflect the new provision to refund a surplus to an outgoing employer, with effect from 14 May 2018. As this is a material change in funding arrangements it was necessary to review the impact on the termination policy and consult with employers.

A four week consultation opened on 9 July 2018 and an explanatory letter detailing the background to the consultation, together with a draft copy of the 2018 FSS, was shared with employers.

As the prospect of a funding surplus emerging when an employer exits the Fund would likely be as a result of an outsourced contract, the objective of the policy revision is to achieve consistency between an employer's commercial arrangement, the termination policy and the new regulations.

The Pension Committee approved the revisions to the policy at its meeting dated 29 October, taking full consideration of the Scheme employer and Pension Board responses to the consultation exercise.

The Communications Policy

The Communications Policy was updated in July 2018 to reflect the move to electronic communications and the increase in use of technology by members and employers. The Pension Board recommended the revised policy should be presented to Pension Committee for approval in order to deliver the efficiencies outlined in the Fund's business plan to continually drive improvement through our digital transformation plan.

Operational Improvements

Immediate Payment Processing-Transfers and Refunds

The project to extend the immediate payment facility to Transfer and Refund payments to realise the efficiencies being achieved in processing retirement benefits and to reduce the use of supplementary systems, was completed in year. A work stream was assigned to configure and install the appropriate updates to the pension benefit system, along with a period of staff training, testing and acceptance of the software processes.

Internal Audit carried out an audit of the proposed process and was satisfied there would be no significant risk involved and the immediate payments for Transfer and Refund payments went live during August with an agreed weekly payment schedule.

New Facility for Notification of Death

A new webform has been designed and placed on the members' website; this allows a relative or person dealing with the estate of a deceased person, to electronically inform the Fund of a death. This development of death notification reduces some of the emotional stress of verbal communication and also the potential for overpayment of pension.

Pension Administration System Migration

The Fund continued with the large project to migrate over eight million documents from the Civica document management system into an integrated system provided by Aquila Heywood.

The extraction of documents took place during Autumn 2018, with a phased migration into the Aquila Heywood 'Altair' system during February and March 2019. In parallel, Fund IT officers continued to work with business area managers to create new operational workflow processes in the integrated 'Altair' system. A final document extract and migration is scheduled at the end of May just prior to going live with the new solution in June 2019.

Office Rationalisation

Within the reporting period, the Fund completed the refurbishment of the office space in Castle Chambers. Whilst the main reception area remains on the 7th Floor, there has been a consolidation of administration teams from the 4th and 7th Floor to reflect the new job roles and structures. The finance and investment teams were moved to the 6th floor with the Fund now occupying only two floors of the building. The IT and electrical cabling was replaced with improved connectivity to Wirral Council, the administering authority.

Strategic Focus, Planning and Operational Cost

Service Planning

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

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

Restructure Staff Training and Development

The administration team has a solid LGPS knowledge base. This collective expertise, together with the high quality administration systems and record keeping improvement plans, enables us to deliver an effective and efficient service to our members and employers

As we continue to evolve our operational design and advance service delivery, we ensure we develop our staff to support the changes to working practices.

The Fund's restructure and re-designation of roles was finalised last year in order to retain, train and recruit additional staff to increase our capacity, to deliver the ever-increasing statutory and governance requirements, along with the complexities of the LGPS.

The new staff joined the team this year. Following an internal training programme, the new recruits were tasked to eliminate backlogs as well as setting up systems to improve data quality and deal with new casework as a result of the amendments to the Regulations.

The Fund provides a comprehensive training programme for its staff and a number have made good progress with their Chartered Institute of Payroll Professional qualification during the year. Training opportunities have also been provided to expand technical knowledge within the team.

The Fund keeps abreast of best practice by participating in collaborative groups such as; the Local Government Association Communications Group, the Shrewsbury Pensions Officer Group and the Metropolitan Pension Fund Group. These groups all offer opportunities to discuss topical pension issues and to share best practice and innovations enabling greater cross-function working with other LGPS Funds.

Operational Costs

The Fund's operational costs are reviewed by the Pensions Committee, which approves the annual operational budget. Actual spend is monitored throughout the year by the Fund Management team and overall spend is reported in the annual Report & Accounts.

The MHCLG surveys funds annually to collect administration and fund management costs in the LGPS -this is referred to as the 'SF3' statistical return.

Submitted under Section 168 of the Local Government Act 1972, the data provides the government with a benchmark of Scheme costs, and is also used in compiling the National Accounts, showing the role of pension funds in the economy.

The administration costs reported in the 2017-18 'SF3' statistical return was £18.76 per member.

In the coming year, we will be participating in a new benchmarking initiative with other large LGPS Funds to not only provide a comparative Cost per Member but also a service quality assessment. This will present, in the future, a metric of 'value for money' relative to a comparative peer group of Funds.

Equality & Diversity

The Fund aims to deliver accessible, high-quality, value for money services to all of our customers, without discriminating against any social grouping by age, gender, race, disability, sexual orientation or religious belief.

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

Member Communications

Our member services programme and events continue to provide increasing face-to-face help and support across the employer base, presenting courses/surgeries, as requested, at employer workplaces.

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

Fund officers continue to work with employers in promoting the 'MyPension' service, to further encourage active members to register. The Fund provided employers with suitable text for staff newsletters, briefings, intranet sites and broadcast emails. On production of the statements, employers were asked to utilise the same communication channels to inform members of their availability online.

Presentations for Scheme Members

	Events	Approx. Attendees
Retirement Planning Course Hosted at employer premises	6	116
Mid-Life Planning Course Hosted at employer premises	1	18
Presentations about the LGPS Hosted at employer premises	19	456
Total	**26**	**590**

Employer Communications

We continue to deliver our Practitioner workshops to support new employers, those with staff changes or a need for refresher training. These workshops help to increase the understanding of employer responsibilities and how the Fund and employers work together to deliver benefits to members.

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

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund-specific documents provide detailed information on administrative and operational practice. Practitioner training sessions are provided by Fund officers, to provide guidance on employer duties, operational practice and direction in completing Fund forms.

Data Security

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

The following arrangements are in place to safeguard this data:

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

In May 2018, the Fund worked in collaboration with the Local Government Association and West Midlands Pension Fund in the development of an LGPS specific Privacy Notice for members, detailing the legal basis for Funds to collect, store and process personal data, including the rights of individuals in requesting access, correction and erasure of their data.

Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	**93**
2. Payment of Monthly Pensions	100%	**100**
3. Payment of Transfer Values	7 days	**98**
4. Provision of Inward Transfer Quotes	10 days	**94**
5. Notification of Deferred Benefits	22 days	**99**
6. Provide Valuation in Divorce Cases	10 days	**100**
7. Respond to Members' Enquiries	10 days	**83**

(Details given in respect of 12 month period to 31 March 2019)

Internal Dispute Resolution Cases

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

Appeals against Employer Decisions

Employer	Number	Employer Decision
Sefton Award of ill health tier	1	Upheld
Wirral Award of ill health tier	1	Dismissed
Total	**2**	

Appeals against Fund Decisions

Reason for Appeal	Number	Fund Decision
GAD Late retirement factors	1	Dismissed
Total	**1**	

Appeals to the Pensions Ombudsman

Reason for Appeal	Number	Fund Decision
Recovery of pension paid in error	1	Dismissed
Total	**1**	

The decision upheld by the Pensions Ombudsman was that the Fund must recover the incorrectly paid pension and that the Fund's proposed recovery plan was reasonable.

Investment Report

Year ended 31 March 2019

Robust global growth supported the investment climate over the fiscal year ending March 2019; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk through the 12 month period.

In the US, the fiscal stimulus enacted by President Trump in late 2017 became visible in 2018, with solid employment numbers and strong economic growth which was a boon to corporate earnings. Economic data out of Europe was more mixed, but in June the European Central Bank (ECB) was confident enough to declare an end to its own version of quantitative easing, effectively winding up its historic €2.4 trillion bond-buying programme. Sentiment around Emerging Markets was more cautious however. China experienced a slowdown in activity as the monetary authorities successfully curtailed the activities of the shadow banking sector. This area of the economy, if left unchecked, is a potential threat to the country's long-term financial stability. In addition, the strengthening US dollar and higher US interest rates had the effect of raising funding costs for Emerging Market regions providing a headwind to growth.

Politics and Geopolitical risk dominated the headlines throughout the period. UK and Eurozone equity markets were hit by continuing unease over Brexit as well as concerns over Europe's exposure to the slowing Emerging Markets region and worries over the Italian budget. Trade tensions intensified and in the third quarter of 2018 the US imposed 10% tariffs on $200 billion worth of Chinese goods; China in turn retaliated with their own tariffs on US goods amounting to $60 billion, China did make efforts to support economic growth by making cuts to the Required Reserve Ratio (RRR) which effectively reduces funding costs for Chinese companies, but investors held their cautious approach to the region up until the 1st quarter of 2019.

Despite some of the negative headlines developed market equities extended their march upwards through the third quarter of 2018 reaching an all-time high in September, with US stocks leading the way. The 4th quarter however saw some sharp negative movements, particularly in developed markets. Concerns had been growing over the Federal Reserve's hawkish rhetoric on interest rates and following the interest rate hike out of the US in late September the angst spilled over into outright fear that the central bank was about to make a policy mistake by tightening interest rates aggressively when economic activity was about to slow. Developed market equities lost around 11% in the 4th quarter, but early 2019 saw as strong rebound thanks to a more dovish stance taken by central banks and some easing of trade concerns.

Looking across the year to the end of March 2019 the major asset classes on the whole delivered a positive performance. Within equities the dispersion of returns across the regions was sizable, with the standout performer being North America. Here strong corporate earnings and an appreciation of the US dollar against Sterling helped deliver a return of 17.5% to UK based investors. Asia Pacific equities also performed well delivering +12.7% and UK equities returned +6.4%. Japan equities lost value over the period with a return of -0.9%. Japanese corporate earnings tend to be the most sensitive to global growth and the slowdown experienced, particularly in Asia, weighed on investor sentiment.

Returns from the property sector were more muted compared to the prior year, but were still respectable at +5.1%. The prevalence of Company Voluntary Arrangements (CVAs) in the retail sector has hurt sentiment and depressed valuations in that area of the market.

Government bonds achieved above-trend returns, reversing the poor performance delivered in the prior year. The Fed's dovish shift in the 4th quarter saw 10-year Treasury yields falling to their lowest level since late-2017, which in turn drove bond yields lower (and bond prices higher) in the UK and Europe. In corporate bond markets, whilst overall returns were positive a deterioration of risk sentiment led to broad-based underperformance across investment grade credit sectors relative to government bonds.

The Fund's benchmark for UK bonds is a 50:50 combination of UK Gilts and Sterling denominated investment grade corporate bonds. This benchmark advanced by 3.7% over the period. UK Index Linked bonds, which offer investors protection against inflation, delivered a very robust +5.5% return.

The performance of the Fund against its benchmark for 1, 3, and 5 year periods is shown below:

	1 Year	3 Year (annualised)	5 Year (annualised)
Merseyside Pension Fund	5.64%	9.99%	8.68%
Benchmark	5.14%	8.34%	7.04%
Relative Return	0.48%	1.52%	1.53%

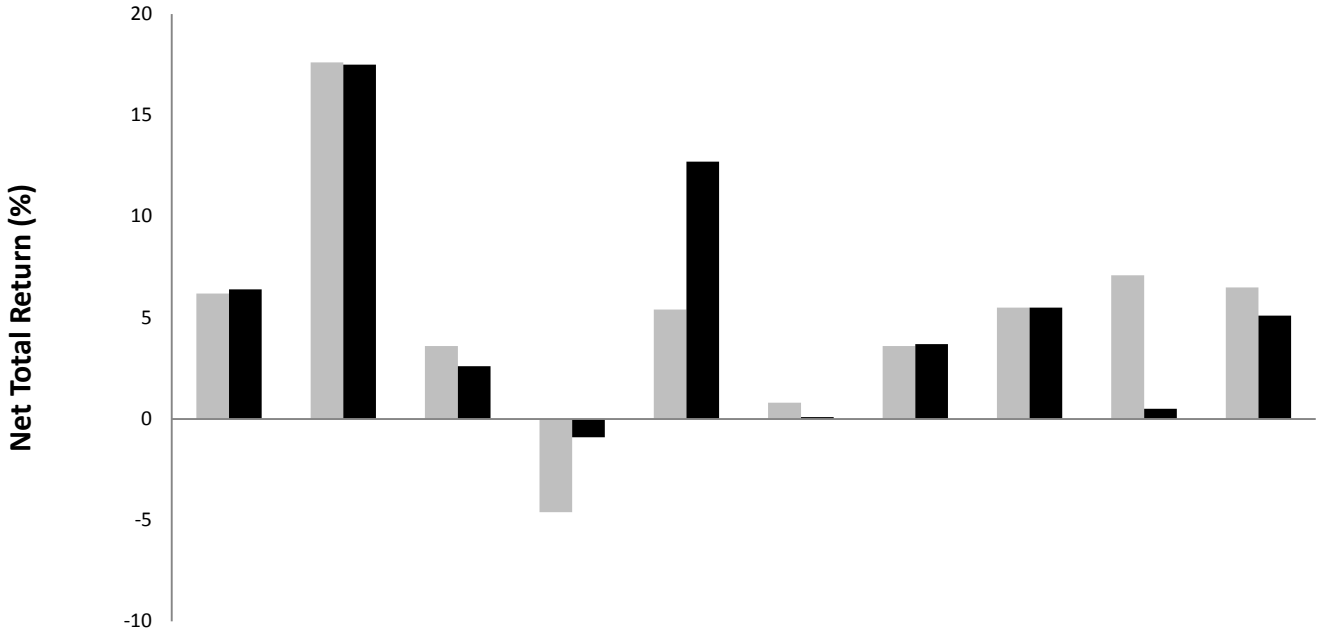
Source: Northern Trust

Merseyside Pension Fund returned 5.6% in the financial year to the end of March 2019 compared to its bespoke benchmark return of 5.1%; an outperformance of 0.5%. This was ahead of the Consumer Price Index and the increase in Average Earnings which advanced by 1.9% and 3.3% respectively.

Alternatives contributed significantly to the outperformance driven by strong performance in Private Equity and Infrastructure assets. The relative performance of the Fund's property assets relative to the benchmark also helped to deliver out-performance.

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

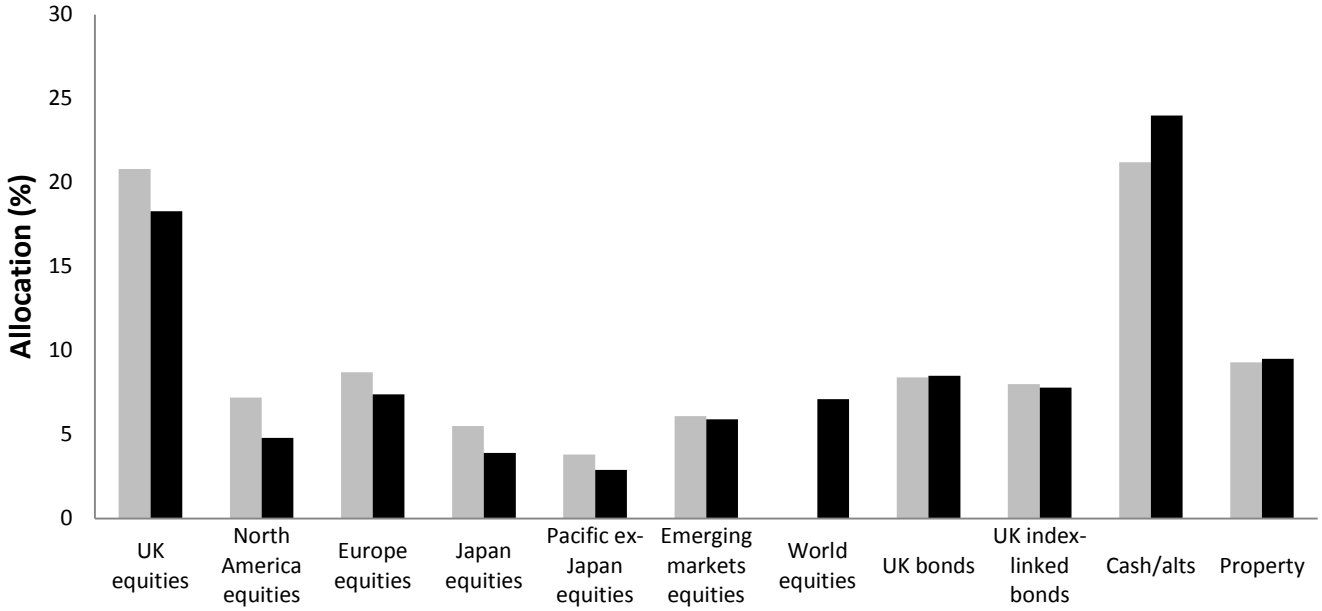
Figure 1: Net Total return by Asset Class for Year Ending 31 March 2019



	UK equities	North America equities	Europe equities	Japan equities	Pacific ex-Japan equities	Emerging markets equities	UK bonds	UK index-linked bonds	Cash/alts	Property
Fund	6.2	17.6	3.6	-4.6	5.4	0.8	3.6	5.5	7.1	6.5
Benchmark	6.4	17.5	2.6	-0.9	12.7	0.1	3.7	5.5	0.5	5.1

Figure 2 illustrates the asset allocation of the Fund on 31 March 2019 compared to 31 March 2018:

Figure 2: Asset allocation change 2019 vs. 2018



	UK equities	North America equities	Europe equities	Japan equities	Pacific ex-Japan equities	Emerging markets equities	World equities	UK bonds	UK index-linked bonds	Cash/alts	Property
2018	20.8	7.2	8.7	5.5	3.8	6.1	0	8.4	8	21.2	9.3
2019	18.3	4.8	7.4	3.9	2.9	5.9	7.1	8.5	7.8	24	9.5

World equities were introduced in Q1 of 2019 with the launch of two new strategies. The first being a multifactor investment portfolio which aims to out-perform the FTSE Developed World Index with the use of a systematic method of selecting stocks that have attractive valuations, high quality earnings and strong price momentum. The second strategy again adopts a systematic approach to stock selection, but with decarbonisation as a feature, and was designed with the goals of the 2015 Paris climate accord in mind.

Largest Property Holdings as at 31 March 2019

Holding	Market Value £'000
Fort Halstead	58,500
Tunsgate Shopping Centre, Guildford	46,150
Telegraph Road, Heswall	31,400
129-132 North Street, Brighton	30,000
Mitre Bridge Industrial Estate, Mitre Way, London	24,100

Largest Infrastructure Holdings as at 31 March 2019

Holding	Market Value £'000
Iona Capital – bio energy	94,000
Clyde Wind Farm	43,000
Anglian Water Group	41,000
Forth Ports Group	24,000
Rolling Stock (East Anglia, South Western, Moorgate)	17,000

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
UK Equities	**18.70**	
Overseas Equities	**34.30**	
US		5.30
Europe (ex UK)		8.00
Japan		4.00
Asia Pacific		4.00
Emerging Markets		6.00
World		7.00
Fixed Interest	**18.00**	
UK Gilts		4.00
UK Index-Linked Gilts		10.00
Corporate Bonds		4.00
Property	**8.00**	
Alternatives	**21.00**	
Private Equity		5.00
Hedge Funds		4.00
Opportunities		5.00
Infrastructure		7.00
Cash		0.00
Total	**100.00**	

In response to the Government's pooling initiative the 'Northern LGPS was established by the local government pension funds for Greater Manchester, Merseyside and West Yorkshire. It is expected that the Northern LGPS will achieve significant cost savings and economies of scale through the pooling of assets. Merseyside Pension Fund's share of the Northern LGPS set up costs was £ 172k, with £65k in legal costs and £107k in other costs.

Merseyside Pension Fund is a member of GLIL (GMPF & LPFA Infrastructure LLP), an infrastructure investment vehicle initially set up a joint venture between the Greater Manchester Pension Fund and London Pensions Fund Authority. GLIL targets core infrastructure assets predominantly in the United Kingdom. On joining, Merseyside Pension Fund made a commitment to invest £125 million and as at the end of March 2019 around 80% of this amount had been invested. On 1 October 2018 the Fund increased its commitment to GLIL to £250 million. Total committed capital to GLIL from its existing investors stands at £1.825 billion as at 31 March 2019. In 2018 changes were made to the structure of GLIL to facilitate wider participation by pension funds. GLIL moved to an open-ended fund structure that allowed for the admission of new members.

In May 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pensions Fund established a collective private equity investment vehicle (NPEP). As at end May 2019 commitments of around £550 million had been made to private equity funds, of which c£115 million came from Merseyside Pension Fund. The private equity funds provide a diversified exposure to private companies across the globe, from small-cap growth names to large established companies with strong business models that can support the higher levels of debt that are associated with the private equity model.

The Northern LGPS has appointed Northern Trust to provide a broad range of custodial and administration services, including private equity fund administration, compliance monitoring and carbon reporting. The appointment underlines the combined LGPS group's commitment to ensuring the highest levels of asset safety, governance and transparency in reporting. Pooling remains a key focus and expectations are that more asset classes will be managed under this pooled approach in the years ahead.

Private market assets generally have costs that are met within the vehicle rather than through an explicit charge paid directly by Merseyside Pension Fund. These costs are not charged directly to the Fund Account, but are included in the fair value adjustments applied to the assets concerned within the Fund Account with performance reported on a net basis. The Fund aims to be both transparent and value-led in its investment approach and the table below shows costs during the current and previous financial year. The performance related fees relate to monies that have been paid out and do not include any accrued performance fee estimates.

Asset Class	31 March 2018 Management Fee £000	31 March 2018 Performance Related Fee £000	31 March 2019 Management Fee £000	31 March 2019 Performance Related Fee £000
Private Equity	7,780	5,599	5,331	10,101
Infrastructure	5,354	44	4,938	0
Property	4,012	664	4,662	4,160
Opportunities & Hedge Funds	5,043	2,414	5,868	4,355
Total	**22,190**	**8,721**	**20,799**	**18,615**

The increase in performance fees has been driven the strong returns delivered by private market assets. For Private Equity, Property and Opportunities more funds are maturing and entering into their harvest phase and these mature funds are more likely to have met the hurdle rate of return (generally 8%), and for a period when profits are above that level more of the distributions will make their way to the General Partner rather than the investor. Included in the Infrastructure and Private Equity management fee numbers for 2018/2019 are £261,551 for GLIL and £31,618 for NPEP. Additional Northern LGPS set up costs in relation to legal and tax advice amounted to £142,051. The total private market costs of £39.4 million for 2018/2019 can be compared with around £182 million of net value add that these assets delivered to the Fund over that period. Investment Management figures of £16.7 million for March 2019 and £11.6 million for March 2018 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £39.4 million and £30.9 million respectively.

Merseyside Pension Fund has a Responsible Investment (RI) policy that has continued to be developed in partnership with like-minded investors committed to integrating sustainability into investment decision-making and acting as stewards of the assets we own. The Fund is a member of the Principles for Responsible Investment (PRI) and has submitted reporting to PRI on its activities to implement the Principles over the 2018 calendar year. The Fund's most recently available PRI Transparency Report can be viewed at: **unpri.org/signatories**

The Fund works with corporate governance specialists PIRC to vote on all of its eligible shareholdings in public listed companies, in line with PIRC's recommendations (based upon PIRC's annually updated Shareholder Voting Guidelines). Full disclosure (by company and year) of those recommendations is accessible at the Fund's website at: **mpfund.uk/voting**

Northern LGPS has committed to co-ordinating activity on proxy voting across listed equity holdings. In addition to public reporting on voting activity through the Northern LGPS website**,** the pool's RI Policy commits it to pre-disclosing voting intentions and to ensuring vote maximisation by restricting its securities lending programme around 'proxy voting season'. Northern LGPS has appointed PIRC as its RI Adviser to ensure that the pool's voting policy is consistent across the partner Funds.

Addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work over the year. The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) provides a global framework to translate non-financial information into financial metrics. The TCFD has been endorsed by over 500 organisations and companies, representing a combined market capitalisation of over US$7.9 trillion and including financial firms with US$100 trillion assets under management. The Fund is committed to reporting on its approach to climate risk using the TCFD framework (as recommended for asset owners) and, over the course of the year, has partnered with other asset owners to promote TCFD reporting in the entities in and through which we invest.

In preparing the TCFD statement for inclusion in this Investment Report, the Fund has referred to the guidance in the PRI publication, Implementing the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations: A Guide for Asset Owners (PRI, 2018). While the Fund considers that the evolution of its TCFD reporting is a multi-year endeavour, as a benchmark of progress it can be noted that the PRI's priority actions for asset owners in the near term (set out on page 7 of the PRI guidance) are all addressed by the Fund's approach to climate risk.

Merseyside Pension Fund – TCFD statement as at 31 March 2019

Governance

The Pensions Committee (as the Fund's governing body) has mandated that Fund's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance especially from partner organisations such as IIGCC, PRI and the LAPFF) and receives regular reports on progress.

The Pensions Committee has reviewed its investment beliefs through a sustainability lens and through a deliberative process involving a representative stakeholder panel. The findings and summary of the Fund's Responsible Investment (RI) Beliefs have been published on the Fund's website and reaffirms the Committee's view that a robust RI policy should be seen within the context of long-term goals and as an integral part of future-proofing the Fund.

Strategy

The Fund's strategy is based on the view that climate change is a systemic risk and thus, a material long term financial risk for any investor that must meet long term obligations. The strategic review process (linked to the triennial actuarial valuation of the Fund's liabilities) has been initiated and will conclude in Q3 2019. This will utilise climate scenario analysis (working with climate models developed by Aon Hewitt, the Fund's investment strategy adviser) to test the resilience of proposed asset allocation models in four climate change scenarios versus a base case scenario (which will assume that asset returns will move in line with what currently appears to be priced into the market).

Risk Management

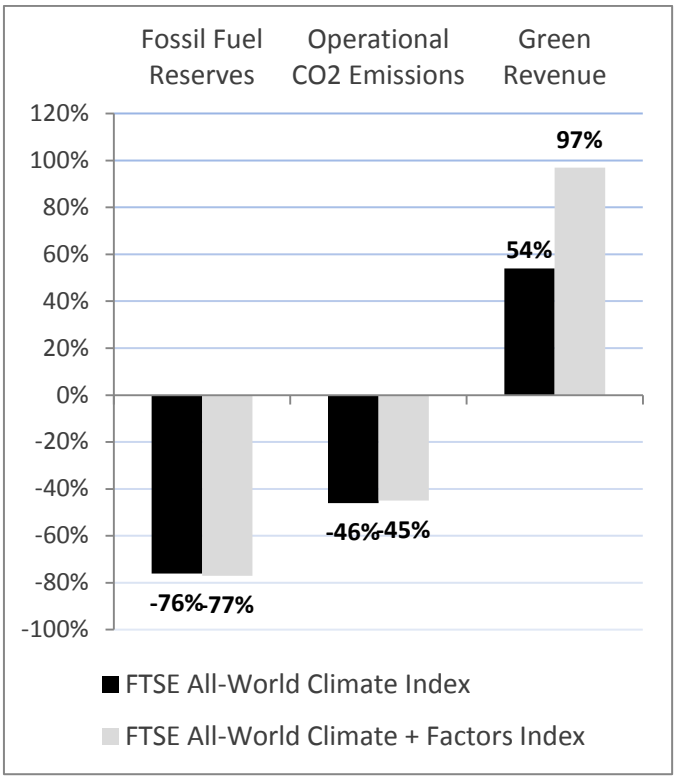
The Fund acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management has been on the mitigation of transition risk through enacting a decarbonisation policy in respect of the public equities portfolio (the Fund's largest risk asset allocation).

One-third of the passive equities portfolio (£428 million or approximately 10% of total equities) is now invested in a low carbon index strategy that tilts away from stocks with higher CO_2e emissions intensity or significant fossil fuel reserves, but also introduces a tilt in favour of stocks with 'green revenues' (companies engaged in the transition to a green economy as expressed by their financial reporting). The strategy also moves away from using 'traditional' market capitalisation weighting methodology (with its high concentration in the most carbon-intensive sectors and industries) to a multi-factor weighting approach. On this basis, the decarbonisation strategy used in the passive equities allocation targets a climate risk-efficient return that provides exposure to the market's equity risk premium, while providing a hedge against the market's mispriced climate risk.

Targets and Metrics

The decarbonisation target of moving one-third of passive equities into a low carbon index strategy (as reported in Merseyside Pension Fund's 2018 TCFD statement) was accomplished in January 2019 by £400 million of funding into the All-World Climate Balanced Factor Index Fund (established by a partnership of Merseyside Pension Fund, FTSE Russell and State Street Global Advisers). The fund is accessible to other qualifying UK pension fund investors.

This index has a reduced carbon footprint compared to its cap-weighted 'parent' index, the FTSE All-World:



The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the 8% allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The Fund has significant capital deployed in the Energy & Utilities sector, comprising of renewable energy generating assets (on-shore & off-shore wind, hydro, solar and energy-from-waste) as well as energy distribution networks and waste collection.

On an invested capital basis, Merseyside Pension Fund has £220m invested in renewable energy projects, both directly through the GLIL platform (of which, the Fund is a co-owner) and indirectly through fund investments.

Climate Stewardship

As active members of the global Climate Action 100+ initiative, Merseyside Pension Fund has been supporting a number of prominent engagements with 'high carbon' companies with the objective of driving strategic change in these businesses to align them with the goals of the Paris Agreement.

Most notably, the Fund has co-filed a shareholder resolution at the 2019 AGM of BP, calling on the company to accelerate its change programme with respect to its capital expenditure and commit to setting relevant science-based targets in line with Paris. The Fund's co-filing (along with others in the CA100+ group & co-ordinated by the CofE Pension Fund) was crucial in getting the resolution onto the ballot for the AGM and securing the support of BP's management for the resolution: **climateaction100.org/**

Financial Performance

Key Financials for 2018/19

	£000	£000	£000
Fund Value at 31 March 2018			**8,563,441**
Contributions & Benefits			**(137,359)**
Employer Contributions	155,155		
Employee Contributions	55,422		
		210,577	
Pensions Paid	(265,886)		
Lump Sums Paid	(74,812)		
		(340,698)	
Net Transfers		(7,238)	
Management Expenses			**(44,434)**
Administration	(2,778)		
Investment Management	(39,708)		
Oversight & Governance	(2,269)		
		(44,755)	
Other Income		321	
Investments			**501,090**
Income	216,248		
Change in Market Value	284,842		
Fund Value at 31 March 2019			**8,882,738**

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2018) for the 12 months to 31 March 2019.

2018/19 or at 31 March 2019	**Predicted £000**	**Actual £000**
Fund Size 2018	**8,563,441**	**8,563,441**
Fund Size 2019	**8,995,909**	**8,882,738**
Pensions Paid	(323,049)	(340,698)
Contributions Received	207,068	210,577
Net Transfers	0	(7,238)
Net Cash Flow from Members	**(115,981)**	**(137,359)**
Net management expenses	**(42,429)**	**(44,434)**
Investment Income	206,777	216,248
Change in valuation of assets	384,101	284,842
Return from Investments	**+590,878**	**+501,090**
Net Change Overall	**+432,468**	**319,297**

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

The contributions received in 2018/19 are lower than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18), therefore the following 2 years are reduced accordingly.

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

12 months to 31 March 2019	Budget £000	Actual £000
Employees	3,630	3,032
Premises	191	191
Transport	55	33
Investment fees – operating budget	14,236	11,205
Supplies and Services	2,677	1,770
Third Party	880	1,011
Recharges	364	348
Total	**22,033**	**17,590**

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

Overall the actual out-turn for 2018/19 was £17.6 million, lower than the original budget of £22.0 million approved by the Pensions Committee in July 2018, this is largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.

The 2019/20 Fund budget, along with the 3 year forecast as approved by the Pensions Committee in July 2019 is detailed in the table below.

	2019/20 £000	2021/21 £000	2021/22 £000
Employees	3,799	3,875	3,953
Premises	197	201	206
Transport	54	55	56
Investment fees	14,044	15,013	16,049
Supplies and Services	2,750	2,808	2,867
Third Party	1,114	1,137	1,161
Recharges	360	360	360
Total	**22,318**	**23,449**	**24,652**

The assumptions that underpin this budget are that investment performance follows long term trends and that the Fund follows the long term trends in mortality and other factors assumed within the actuarial valuation. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure nor any investment changes associated with pooling. The budget for 2019/20 at £22.3 million reflects a number of budgeted projects and areas of work originally budgeted in 2018/19 carried forward to the next financial year.

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

	2019/20 £000	2020/21 £000	2021/22 £000
Fund Size Start of Year	**8,882,738**	**9,315,192**	**9,971,658**
Fund Size End of Year	**9,315,192**	**9,971,658**	**10,531,530**
Pensions Paid	(347,853)	(355,158)	(362,616)
Contributions Received	214,999	419,514	288,324
Net Transfers	-	-	-
Net Inflow from members	**(132,854)**	**64,356**	**(74,292)**
Net management expenses	**(47,601)**	**(50,638)**	**(53,880)**
Investment Income	231,169	247,120	264,171
Change in valuation of assets	381,740	395,628	423,873
Return from Investments	**612,909**	**642,748**	**688,044**
Net change overall	**432,454**	**656,466**	**559,872**

The contributions predicted for 2019/20 reflect the higher contributions received in 2017/18, where a number of employers opted to pay their three year deficits calculated by the actuary in year 1 (2017/18), 2019/20 contributions are reduced accordingly. It has been predicted that employers will again opt to pay their 3 year deficits upfront in 2020/21 following the 2019 valuation with the sequent year contributions reduced.

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

Financial Statements

Fund Account - for year ended 31 March 2019

FUND ACCOUNT For the year ended 31 March 2019	Note	2018/19 £'000	2017/18 £'000
Dealing with members, employers and others directly involved in the fund			
Contributions receivable	7	210,577	407,068
Transfers in	8	11,797	12,174
		222,374	**419,242**
Benefits payable	9	(340,698)	(314,556)
Payments to and on account of leavers	10	(19,035)	(14,804)
		(359,733)	**(329,360)**
Net additions/(withdrawals) from dealing with members		**(137,359)**	**89,882**
Management Expenses	11	**(44,434)**	**(40,027)**
Net additions/(withdrawals) including fund management expenses		**(181,793)**	**49,855**
Return on Investments:			
Investment Income	12	220,626	197,008
Profit and losses on disposal of investments and change in market value of investments	13	284,842	141,671
Taxes on income	12	(4,378)	(3,578)
Net Return on Investments		**501,090**	**335,101**
Net increase/(decrease) in the Fund during the year		319,297	384,956
Net Assets of the Fund at the start of the year		8,563,441	8,178,485
Net Assets of the Fund at the end of the year		**8,882,738**	**8,563,441**

NET ASSETS STATEMENT For the year ended 31 March 2019	Note	2018/19 £'000	2017/18 £'000
Investment Assets	13		
Equities		2,795,439	2,768,408
Bonds		665,610	-
Pooled Investment Vehicles		4,695,505	5,074,479
Derivative Contracts		-	218
Direct Property		521,750	519,750
Short Term Cash Deposits		86,098	53,226
Other Investment Balances		104,196	99,613
		8,868,598	**8,515,694**
Investment Liabilities	18	(8,445)	(13,736)
Total Net Investment Assets		**8,860,153**	**8,501,958**
Long Term Assets	19	4,146	5,013
Current Assets	20	35,413	79,909
Current Liabilities	20	(16,974)	(23,439)
Net Assets of the Fund as at 31 March		**8,882,738**	**8,563,441**

Notes to the Accounts

1. Description of Fund

Merseyside Pension Fund is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the Administering Authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2018/19 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the 4 other Merseyside Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 the Local Pension Board was introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administrating Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

b) Membership

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

Organisations participating in Merseyside Pension Fund include:

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

There are 208 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 138,570 members as detailed below:

	31-Mar-19	31-Mar-18
Number of employers with active members	**208**	**194**
Number of employees in scheme	46,726	49,151
Number of pensioners	45,038	43,495
Number of dependants	6,547	6,665
Number of deferred pensioners	40,259	38,176
Total number of members in the Scheme	**138,570**	**137,487**

c) Funding

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

d) Benefits

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

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

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

There are a range of other benefits provided under the scheme, for more details please refer to the Fund's website at**: mpfmembers.org.uk**

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The accounts have been prepared on a going concern basis.

3a. Summary of Significant Accounting Policies

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

Contributions and Benefits

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

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

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

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

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

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

Transfers to and from Other Schemes

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

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

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

Management Expenses

The Fund discloses its management expenses analysed into three categories, administration costs, investment management costs and oversight and governance costs in accordance with CIPFA “Accounting for Local Government and Management Costs”.

Administration Costs

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

Investment Management Costs

All investment expenses are accounted for on an accrual basis.

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

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

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

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

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

Oversight and Governance Costs

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

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

Investment Income

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

Rental income from properties is recognised on a straight-line basis over the term of the lease, rent is accounted for in the period it relates to and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

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

Taxation

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

Valuation of Investments

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

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained had the securities have been sold at that date.
- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators or using latest financial statements published by respective Fund Managers adjusted for any cash flows.
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds the net asset value per unit is obtained through data vendors.
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2019 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards issued June 2017 and effective from 1 July 2017 (the "RICS Red Book").
- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies

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

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

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

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

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

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

Short Term Deposits

Short term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under "Other Investment Balances".

Financial Liabilities

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

Additional Voluntary Contributions
The Fund holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

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

3b. Changes to Accounting Policy and Presentation

The following accounting standards have been issued and are applicable 2018/19:

IFRS 9 Financial Instruments this has introduced changes to the classification and measurement of financial assets, financial assets reported as "loans and receivables" in 2017/18 are reclassified as "assets as amortised cost". Impairment is recognised on an expected loss basis rather than when objective evidence of impairment has been identified.

IFRS15 Revenue from Contracts with Customers the core principal is for revenue to be recognised in an amount that reflects the consideration to which the fund expects to be entitled for transferring promised goods and services to the service recipient/customer. This accounting standard has minimal impact on the Fund.

4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

5. Estimation

Unquoted Investments

The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2019 was £4,221 million (£4,603 million at 31 March 2018).

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

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

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

6. Events after Reporting Sheet Date

There have been no events since 31 March 2019, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

	2018/19	2017/18
	£'000	£'000
Employers		
Normal	127,865	119,408
Pension Strain	9,274	10,426
Deficit Funding	18,016	223,096
Total Employers	**155,155**	**352,930**
Employees		
Normal	55,422	54,138
	210,577	**407,068**
Relating to:		
Administering Authority	24,581	57,357
Statutory Bodies	160,776	319,948
Admission Bodies	25,220	29,763
	210,577	**407,068**

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2018/19 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

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

"Deficit Funding" includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2018/19 the Fund has received additional and upfront payments period until the next actuarial valuation in 2019, totalling £2.2 million, (in 2017/18, a number of employers opted to pay their three years deficit as a lump sum payment in year 1 totalling £141.2 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2018/19 no such charges were levied.

8. Transfers in

	2018/19	2017/18
	£'000	£'000
Individual transfers	11,797	12,174
	11,797	**12,174**

There were no group transfers to the Fund during 2018/19.

9. Benefits Payable

	2018/19 £'000	2017/18 £'000
Pensions	265,886	252,874
Lump sum retiring allowances	66,173	56,141
Lump sum death benefits	8,639	5,541
	340,698	**314,556**
Relating to:		
Administering Authority	46,919	43,387
Statutory Bodies	240,601	222,117
Admission Bodies	53,178	49,052
	340,698	**314,556**

10. Payments to and on Account of Leavers

	2018/19 £'000	2017/18 £'000
Refunds to members leaving service	538	447
Payment for members joining State scheme	8	37
Income for members from State scheme	-	(1)
Group transfers to other schemes	-	-
Individual transfers to other schemes	18,489	14,321
	19,035	**14,804**

There were no group transfers out of the Fund during 2018/19.

11. Management Expenses

	2018/19 £'000	2017/18 £'000
Administration costs	2,778	2,587
Investment management costs	39,708	35,922
Oversight and governance costs	2,269	1,727
Other Income	(321)	(209)
	44,434	**40,027**

11a. Administration Costs

	2018/19 £'000	2017/18 £'000
Employee costs	1,867	1,665
IT costs	616	611
General costs	255	276
Other costs	40	35
	2,778	**2,587**

11b. Investment Management Costs

	2018/19 £'000	2017/18 £'000
External Investment Management Fees	27,652	22,707
External Investment Management Performance Fees	544	1,546
External Services	799	565
Internal Investment Management Fees	713	614
Property Related Expenses	6,334	6,377
Transaction Costs	3,666	4,113
	39,708	**35,922**

11c. Oversight and Governance Costs

	2018/19 £'000	2017/18 £'000
Employee Costs	520	475
External Services	1,179	767
Internal Audit	49	34
External Audit	31	39
Other Costs	490	412
	2,269	**1,727**

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2018/19 is £259,917 relating to recharged Actuarial fees (2017/18 £195,994).

External Audit fees for 2018/19 also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

12. Investment Income

	2018/19 £'000	2017/18 £'000
Dividends from Equities	99,895	84,247
Income from Bonds	69	-
Income from Pooled Investment Vehicles	54,612	52,333
Rents from Properties	30,512	26,754
Interest on Short Term Cash Deposits	712	267
Income from Private Equity	33,877	32,422
Other	949	985
	220,626	**197,008**
Irrecoverable Withholding Tax	(4,378)	(3,578)
	216,248	**193,430**

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

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £6.3 million (2017/18 £4.8 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, repayments received in 2018/19 £20,981 (2017/18 £nil).

12a. Property Income

	2018/19 £'000	2017/18 £'000
Rental income	30,512	26,754
Direct operating expenses	(6,334)	(6,377)
Net rent from properties	**24,178**	**20,377**

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

12b. Property Operating Leases

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

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

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

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

Age profile of lease income	2018/19 £'000	2017/18 £'000
No later than one year	5,195	1,302
Between one and five years	11,208	8,114
Later than five years	11,635	17,540
Total	**28,038**	**26,956**

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

13. Investments

2018/19	Market Value 31.3.2018 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2019 £'000
Equities	2,768,408	1,635,758	(1,634,730)	26,003	2,795,439
Bonds	-	689,963	-	(24,353)	665,610
Pooled Investment Vehicles	5,074,479	1,077,179	(1,740,461)	284,308	4,695,505
Derivative Contracts	218	613,961	(614,344)	165	-
Direct Property	519,750	3,636	-	(1,636)	521,750
	8,362,855	**4,020,497**	**(3,989,535)**	**284,487**	**8,678,304**
Short term cash deposits	53,226				86,098
Other investment balances	99,613			355	104,196
	8,515,694			**284,842**	**8,868,598**

2017/18	Market Value 31.3.2017 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2018 £'000
Equities	2,728,658	1,272,950	(1,225,858)	(7,342)	2,768,408
Bonds	-	-	-	-	-
Pooled Investment Vehicles	4,804,297	550,657	(414,391)	133,916	5,074,479
Derivative Contracts	224	979,418	(982,541)	3,117	218
Direct Property	431,150	71,899	-	16,701	519,750
	7,964,329	**2,874,924**	**(2,622,790)**	**146,392**	**8,362,855**
Short term cash deposits	75,222				53,226
Other investment balances	117,550			(4,721)	99,613
	8,157,101			**141,671**	**8,515,694**

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

Transaction costs had previously been added to purchases and netted against sales proceeds; however, they are no longer shown in the above tables and instead are shown under investment management costs in note 11b in accordance with CIPFA guidance.

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

13a Analysis of investments

	2018/19 £'000	2017/18 £'000
Equities (segregated holdings)		
UK Quoted	1,150,144	1,261,630
Overseas Quoted	1,645,295	1,506,778
	2,795,439	**2,768,408**
Bonds		
UK Public Sector Quoted	**665,610**	**-**
	665,610	**-**
Pooled Investment Vehicles		
UK Managed Funds:		
Property	53,948	43,961
Equities	138,487	130,528
Private Equity	286,359	311,657
Hedge Funds	41,772	44,079
Corporate Bonds	354,726	343,277
Infrastructure	353,669	252,983
Opportunities	343,556	324,309
Overseas Managed Funds:		
Equities	494,233	486,772
Private Equity	279,333	251,754
Hedge Funds	221,975	226,624
Infrastructure	192,604	175,233
Opportunities	209,989	136,854
UK Unit Trusts:		
Property	116,426	107,949
Overseas Unit Trusts:		
Property	124,120	96,448
Other Unitised Funds	1,484,308	2,142,051
	4,695,505	**5,074,479**
Derivative Contracts	**-**	**218**
UK Properties		
Freehold	387,820	394,100
Leasehold	133,930	125,650
	521,750	**519,750**
Balance at 1 April	519,750	431,150
Additions	3,636	71,899
Disposals	-	-
Net gain/(loss) on fair value	-	-
Other changes in fair value	(1,636)	16,701
Balance at 31 March	**521,750**	**519,750**

As at 31 March 2019 there were no restrictions on the realisability of investment property or of the remittance of income or proceeds of disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

	2018/19 £'000	2017/18 £'000
Short term cash deposits		
Sterling	86,098	53,226
	86,098	**53,226**

	2018/19 £'000	2017/18 £'000
Other investment balances		
Outstanding trades	7,439	9,486
Outstanding dividends entitlements and recoverable withholding tax	22,275	17,566
Cash deposits	74,482	72,561
	104,196	**99,613**

13b Analysis of derivatives

Forward currency contracts

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

Settlement date	Currency bought 000	Currency sold 000	Asset £'000	Liability £'000
Up to one month	GBP 20,080	EUR 23,389	0	(91)
			0	(91)
Net forward currency contracts at 31 March 2019				**(91)**
Prior year comparative				
Open forward currency contracts at 31 March 2018			218	-
Net forward currency contracts at 31 March 2018				**218**

13c Summary of Managers' Portfolio Values at 31 March 2019

	2018/19		2017/18	
Externally Managed	**£million**	**%**	**£million**	**%**
JP Morgan (European equities)	260	2.9	252	3.0
Nomura (Japan)	353	4.0	461	5.4
Schroders (fixed income)	355	4.0	343	4.0
Legal & General (fixed income)	382	4.3	369	4.3
Unigestion (European equities and pooled Emerging Markets)	337	3.8	319	3.8
M&G (global emerging markets)	188	2.1	183	2.1
TT International (UK equities)	249	2.8	249	2.9
Blackrock (UK equities)	272	3.1	252	3.0
Blackrock (Pacific Rim)	158	1.8	152	1.8
Blackrock (QIF)	91	1.0	87	1.0
Newton (UK equities)	281	3.2	263	3.1
Amundi (global emerging markets)	187	2.1	186	2.2
Maple-Brown Abbot (Pacific Rim equities)	177	2.0	166	1.9
State Street Global Advisor (Passive Manager)	1,104	12.3	1,773	20.9
State Street Global Advisor (Bonds Manager)	666	7.5	-	-
Blackrock Transition Manager	1	-	195	2.3
	5,061	**56.9**	**5,250**	**61.7**
Internally Managed				
UK equities	450	5.1	401	4.7
European equities	247	2.8	246	2.9
Property (direct)	522	5.9	520	6.1
Property (indirect)	316	3.6	270	3.2
Private equity	566	6.4	563	6.6
Hedge funds	264	3.0	271	3.2
Infrastructure	546	6.2	428	5.0
Opportunities	580	6.5	486	5.7
Global Equities Internal Factor	201	2.3	-	-
Short term deposits & other investments	116	1.3	80	0.9
	3,808	**43.1**	3,265	**38.3**
	8,869	**100.0**	8,515	**100.0**

As at 31 March 2019 no single investment represented more than 5% of the net assets of the Fund, the table below shows the position as at 31 March 2018:

	2018/19		2017/18	
	£'million	**%**	**£'million**	**%**
SSGA Pooled UK Index Linked Gilts	-	-	682	8.0
SSGA USA Equity Tracker	396	4.5	613	7.2

13d Stock Lending

As at 31 March 2019, £275.1 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £301.2 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £926,260 and is included within "Other" Investment Income.

As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation.

As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14 Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Derivatives - futures and options	Level 1	Published exchange prices at year end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Derivatives - forward currency contracts	Level 2	Market forward exchange rates at the year end	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used.	NAV - based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Direct property	Level 3	Valued at fair value at the year end using independent external Valuers in accordance with FRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the "RICS Red Book").	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled investments - hedge funds and infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis	Material events occurring between the date of the financial statements provided and the Fund's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Sensitivity of assets valued at Level 3

The table below sets out the assets classified as Level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

	Value 31 March 2019 £'000	Potential variance %	Value on increase £'000	Value on decrease £'000
Property	846,330	10.0	930,963	761,697
Unquoted UK equity	109,288	15.0	125,681	92,895
Unquoted overseas equity	84,709	15.0	97,415	72,003
Hedge funds	223,678	10.0	246,046	201,310
Infrastructure	530,218	15.0	609,751	450,685
Private equity	656,899	15.0	755,434	558,364
Total	**2,451,122**			

14a Fair Value Hierarchy

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

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in “Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016)”.

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Values at 31 March 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	4,457,295	1,769,887	1,929,372	8,156,554
Non-financial assets at fair value through profit and loss			521,750	521,750
Financial Liabilities		(91)		(91)
Net investment assets	**4,457,295**	**1,769,796**	**2,451,122**	**8,678,213**

Values at 31 March 2018*	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	3,760,289	2,411,082	1,671,734	7,843,105
Non-financial assets at fair value through profit and loss			519,750	519,750
Net investment assets	**3,760,289**	**2,411,082**	**2,191,484**	**8,362,855**

* The values at 31 March 2018 have been restated, £63.6 million has moved from Level 2 to Level 3.

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

	2018/19 £'000	**2017/18 £'000**
Opening balance	2,191,484	1,884,029
Acquisitions	372,555	357,280
Disposal proceeds	(232,512)	(179,809)
Transfer into Level 3	-	63,571
Total gain/(losses) included in the fund account:		
On assets sold	(7,717)	2,487
On assets held at year end	127,312	63,926
Closing balance	**2,451,122**	**2,191,484**

* The information for 2017/18 has been restated

15. Financial Instruments

15a Classification of financial instruments

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

	31 March 2019		
	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,795,439
Bonds			665,610
Pooled Investment Vehicles			4,695,505
Derivatives			-
Cash deposits	86,098		
Other investment balances	104,196		
Long term and current assets	39,559		
Total financial assets	**229,853**	**-**	**8,156,554**
Grand total	**8,386,407**		
Financial Liabilities			
Derivatives			**(91)**
Other investment balances		(8,354)	
Current Liabilities		(16,974)	
Total financial liabilities	**-**	**(25,328)**	**(91)**
Grand total	**(25,419)**		
Grand net total	**8,360,988**		

	31 March 2018		
	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,768,408
Bonds			-
Pooled Investment Vehicles			5,074,479
Derivatives			218
Cash deposits	53,226		
Other investment balances	99,613		
Long term and current assets	84,922		
Total financial assets	**237,761**	**-**	**7,843,105**
Grand total	**8,080,866**		
Financial Liabilities			
Other investment balances		(13,736)	
Current Liabilities		(23,439)	
Total financial liabilities	**-**	**(37,175)**	**-**
Grand total	**(37,175)**		
Grand net total	**8,043,691**		

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

15b Net gains and losses on financial instruments

	2018/19 £'000	2017/18 £'000
Financial Assets		
Fair Value through profit and loss	286,123	129,691
Total financial assets	**286,123**	**129,691**
Financial Liabilities		
Total financial liabilities		
Net	**286,123**	**129,691**

15c Fair value of financial instruments

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

16. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

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

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

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

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

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

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

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

16a Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables on page 54 show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability.

31 March 2019	Value £m	Potential Variance	Value on increase £m	Value on decrease £m
UK Equities (all equities including pooled vehicles)	1,496	19.0%	1,780	1,211
US Equities	569	21.0%	689	450
Canadian Equities	9	24.0%	11	7
European Equities	841	22.5%	1,030	652
Japan Equities	379	20.5%	456	301
Emerging Markets Equities inc Pac Rim	876	28.0%	1,121	630
Global Equities (all equities including pooled vehicles)	428	19.5%	512	345
UK Fixed Income Pooled Vehicles	735	11.0%	816	655
UK Index Linked Pooled Vehicles	-	9.0%	-	-
UK Bonds	666	9.0%	726	606
Pooled Property	294	12.5%	331	258
Private Equity	566	27.5%	721	410
Hedge Funds	264	9.5%	289	239
Infrastructure	546	18.5%	647	445
Other Alternative Assets	488	14.1%	557	419
Short term deposits & other investment balances	204	0.0%	204	204
	8,361			

31 March 2018	Value £m	Potential Variance	Value on increase £m	Value on decrease £m
UK Equities (all equities including pooled vehicles)	1,801	19.0%	2,143	1,459
US Equities	652	21.0%	789	515
European Equities	777	22.5%	952	603
Japan Equities	461	20.5%	556	367
Emerging Markets Equities inc Pac Rim	819	28.0%	1,049	590
UK Fixed Income Pooled Vehicles	712	11.0%	790	634
UK Index Linked Pooled Vehicles	682	9.0%	743	620
Pooled Property	248	12.5%	279	217
Private Equity	563	27.5%	718	408
Hedge Funds	271	9.5%	296	245
Infrastructure	428	18.5%	507	349
Other Alternative Assets	429	14.0%	489	369
Short term deposits & other investment balances	201	0.0%	201	201
	8,044			

16b Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Fixed Income Vehicles are responsible for managing credit risk, section 16a of this note covers the market risks of these holdings.

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

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

The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £86.1 million (31 March 2018 £53.2 million). This was held in instant access accounts with the following institutions:

	Rating (S&P)	Balances as at 31 March 2019	Balances as at 31 March 2018
		£'000	£'000
Lloyds Bank	Long A Short A-1	22,717	33,226
Invesco	AAAm	15,000	10,000
Santander	Long A Short A-1	-	10,000
Svenska Handelsbanken	Long AA- Short A-1+	20,000	-
Northern Trust	AAAm	28,381	-
Total		**86,098**	**53,226**

16c Liquidity risk

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

The Fund has a cash balance at 31 March of £86.1 million. The Fund has £6,249 million in assets which could be realised in under 7 days' notice, £822 million in assets which could be realised in under 90 days' notice and £1,290 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund had a net withdrawal for 2018/19 in its dealing with members of £137 million and management expenses of £44 million, this is offset by investment income of £221 million.

16d Outlook for real investment returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20% per 1% change in real investment returns. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

17. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming

triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The most recent triennial valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The Funding Strategy Statement (FSS) specifies a maximum period for achieving full funding of 19 years.

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

The key elements of the funding policy are to:

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

Summary of key whole Fund assumptions used for calculating funding target

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

18. Investment Liabilities

	2018/19 £'000	2017/18 £'000
Derivative Contracts	91	-
Amounts due to stockbrokers	8,354	13,736
	8,445	**13,736**

19. Long Term Assets

	2018/19 £'000	2017/18 £'000
Assets due in more than one year	4,146	5,013
	4,146	**5,013**

Assets due in more than one year include future payments of pension strain and reimbursement of lifetime tax allowances.

20. Current Assets and Liabilities

	2018/19 £'000	2017/18 £'000
Assets		
Contributions due	17,270	17,431
Amounts due from external managers	417	41,296
Accrued and outstanding investment income	344	1,152
Sundries	14,192	14,889
Provision for credit losses	(157)	(118)
Cash at bank	3,347	5,259
	35,413	**79,909**
Liabilities		
Amounts due to external managers	165	966
Transfer values payable	-	-
Retirement grants due	2,177	3,467
Provisions	494	432
Miscellaneous	14,138	18,574
	16,974	**23,439**
Total current assets and liabilities	**18,439**	**56,470**

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

"Provision for credit losses" relates to general debtors and property rental income, and is based on an assessment of all individual debts as at 31 March 2019.

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

21. Contractual Commitments

Commitments for investments amounted to £1,064 million as at 31 March 2019. (2017/18 £534.86 million). These commitments relate to Private Equity £494.08 million, Infrastructure £276.54 million, Opportunities £72.46 million, Indirect Property £221.13 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. Contingent Assets

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

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

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

23. Related Party Transactions

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

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.7 million. (2017/18 £3.3 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on

the basis of time spent on Fund work by Wirral Council. There was a debtor of £10.3 million (2017/18 £9.1 million) and a creditor of £341,033 as at 31 March 2019 (2017/18 £254,502).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme (LGPS) Regulations. Contributions for the year are shown in note 7 and in respect of March 2019 payroll are included within the debtors figure in note 20.

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

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

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Eclipse (£14.5 million), Standard Life (£14.7 million), F&C (£20.4 million), GLIL (£111.1 million) and NPEP.

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Standard Life (£14.7 million), BBH Capital (£13.5 million), TEO Plc (£15.3 million), GCM Grosvenor Co-Investment Fund (£8.9 million) and F&C (£20.4 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on eleven investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£5.3 million), Bridges Property Alternatives IV (£2.1 million), Century Bridge China Real Estate Fund II (£3.5 million), Phoenix Asia Secured Debt Fund (£6.1 million) Alma Property Partners (£9.4 million), Barwood Property (£12.5 million), Chenavari Real Estate III (£3.0 million), Newcore Strategic Situations IV (£5.0 million), Hearthstone Residential Fund I (£5.5 million), European Student Housing Fund II (£3.2 million) and Locust Point Private Credit Fund (£4.0 million).

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£8.8 million), Blackrock GRP Fund I (£19.3 million) and AMP GIF II (£12.1 million), Industrial Strategies Fund – Waybill UK Ltd (£21.5 million) and Impax New Energy Investors III LP (£1.1 million).

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

Key management personnel

The Fund's senior management during 2018/19 was comprised of six individuals: the Director of Pensions, the Head of Pensions Administration, three Senior Portfolio Managers and Head of Finance & Risk. The remuneration paid to the senior management during 2018/19 was £402,649 (2017/18 £421,487). In addition, employer contributions of £58,063 (2017/18 £56,995) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year 2017/18.

24. Additional Voluntary Contribution Investments

	2018/19 £000	2017/18 £000
The aggregate amount of AVC investments is as follows :		
Equitable Life	1,985	2,015
Standard Life	5,286	5,988
Prudential	8,739	7,930
	16,010	**15,933**
Changes during the year were as follows:		
Contributions	3,394	3,432
Repayments	3,685	2,441
Change in market values	368	383

Statement of Responsibilities

The Authority's Responsibilities

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

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer;

- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2019.

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

- selected suitable accounting policies and then applied them consistently;

- made judgments and estimates that were reasonable and prudent;

- complied with the Code.

The Section 151 Officer has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Section 151 Officer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2019, and its income and expenditure for the year then ended.

Shaer Halewood Section 151 Officer
July 2019

Audit Report

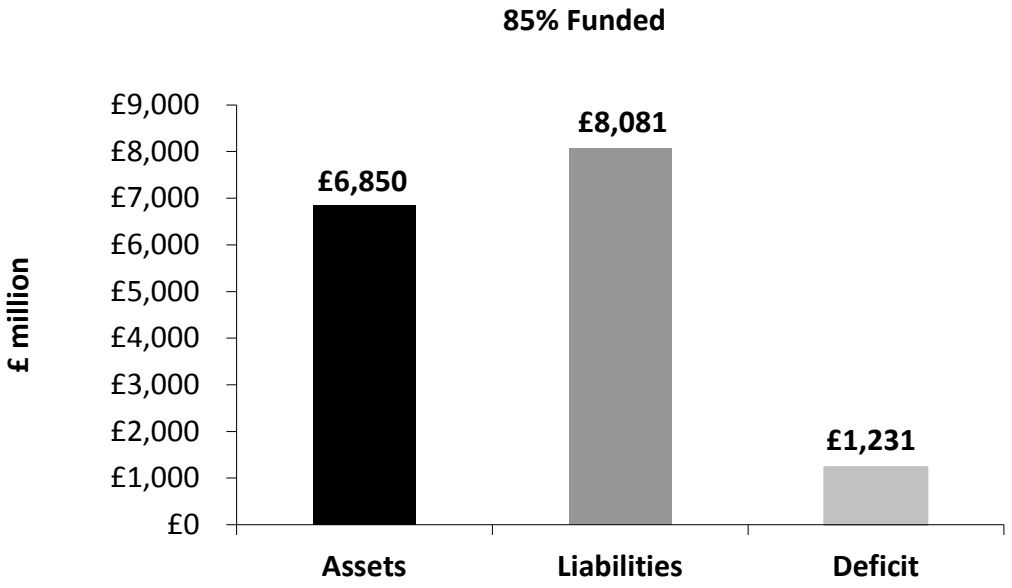
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2019
Statement by the Consulting Actuary

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

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

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



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

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

The Funding Strategy Statement (FSS) sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 19 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £52.8 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their deficit contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

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

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

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

	For past service liabilities (Funding Target) per annum	For future service liabilities (Primary rate of contribution) per annum
Rate of return on investments (discount rate)	4.2%	4.95%
Rate of pay increases (long term)*	3.7%	3.7%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2%	2.2%

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018 per annum	31 March 2019 per annum
Rate of return on investments (discount rate)	2.6%	2.4%
Rate of CPI Inflation / CARE Benefit revaluation	2.1%	2.2%
Rate of pay increases*	3.6%	3.7%
Rate of increases in pensions in payment (in excess of GMP)/Deferred Revaluation	2.2%	2.3%

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £11,285 million. Interest over the year increased the liabilities by c£293 million, and allowing for net benefits accrued/paid over the period decreased the liabilities by c£18 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £78 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £627 million due to "actuarial gains" (i.e. the effect of the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £12,265 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £78 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund after 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

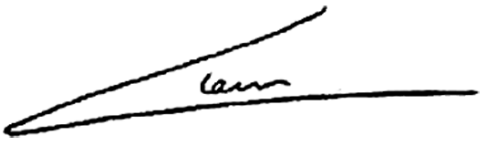
UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs.

Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits.

Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage.

However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019



Clive Lewis
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Appendix A

Scheme employers with active members as at 31 March 2019

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
Scheduled Bodies (34)			
Billinge Chapel End Parish Council	4	0	1
Carmel College	249	0	105
Chief Constable (CC)	7,508	4,044	3,684
Cronton Parish Council	2	0	0
Eccleston Parish Council	4	0	1
Edsential SLE	241	73	76
Halewood Town Council	22	11	7
Hugh Baird College	610	296	261
Knowsley M.B.C.	10,519	0	4,710
Knowsley Town Council	28	0	9
LCRCA - Liverpool City Region Combined Authority	341	0	181
Liverpool City Council	27,102	0	12,226
Liverpool John Moores University	5,	3,478	2,820
Liverpool Streetscene Services Ltd	1,019	0	296
Maghull Town Council	36	0	12
Merseyside Fire & Rescue Authority	1,383	0	604
Merseyside Passenger Transport Executive (MPTE)	3,291	0	1,532
Merseyside Waste Disposal Authority	149	141	76
Office of the Police and Crime Commissioner (OPCCM)	90	36	54
Prescot Town Council	10	3	7
Rainford Parish Council	10	2	3
Rainhill Parish Council	3	0	1
School Improvement Liverpool Ltd	804	0	378
Sefton M.B.C.	14,538	0	6,155
Shared Education Services Ltd	403	53	136
Southport College	399	231	153
St. Helens College	936	689	379
St. Helens M.B.C.	11,143	0	4,832
The ACC Liverpool Group Ltd	615	0	440
The City of Liverpool College	506	848	219
Whiston Town Council	29	9	11
Wirral Council	15,922	0	7,068
Wirral Evolutions Ltd	554	0	145
Wirral Metropolitan College	660	375	251
Scheduled Bodies (Academies) (100)			
Academy of St Francis of Assisi	120	10	53
Bellerive FCJ Catholic College	76	42	27
Birkdale High School	70	56	26
Birkenhead 6th Form College (Academy)	208	93	92
Birkenhead High School Academy	149	17	54
Bishop Martin CE Primary	26	15	9
Blacklow Brow School (Academy)	36	19	13
Blue Coat School (Academy)	106	69	48
Calday Grange Grammar School	172	38	61
Chesterfield High School	118	71	42
Childwall Sports & Science Academy	72	98	33
Christ Church Moreton Primary (Academy)	15	8	6
Church Drive Primary	6	0	2
Churchtown Primary (Academy)	25	16	8
Co-op Academy Portland	18	9	5
Co-op Academy Woodslee	14	0	4

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
Cronton C of E Primary (Academy)	44	19	14
Croxteth Community Primary School (Academy)	14	5	5
De La Salle Academy	44	39	18
Deyes High School	177	96	75
Egremont Primary School (Academy)	90	30	31
Emslie Morgan Academy	35	22	17
Everton Free School	21	0	19
Finch Woods Academy	38	17	15
Formby High School	110	0	41
Garston C of E Primary School (Academy)	46	14	15
Great Meols Primary School (Academy)	52	24	18
Greenbank High School	128	64	48
Halewood Academy Centre for Learning	133	153	54
Halewood C of E Primary (Academy)	41	23	14
Halsnead Primary School (Academy)	57	29	21
Harmonize Academy	32	2	13
Hawthornes Free School	65	18	22
Heygreen Community Primary (Academy)	41	20	21
Hilbre High School (Academy)	173	103	67
Hillside High School (Academy)	117	139	45
Holy Trinity CE Primary (Academy)	56	31	18
Hope Academy	145	95	58
Huyton with Roby CE Primary (Academy)	77	31	22
Kings Leadership Academy (Liverpool)	79	22	33
Kirkby High School	120	137	53
Knowsley Lane Primary School (Academy)	31	28	14
LDST - Liverpool Diocesan Schools Trust (Academy)	28	0	21
Litherland High School (Academy)	91	94	41
Litherland Moss Primary (Academy)	22	10	8
Liverpool College (Academy)	82	0	28
Liverpool Life Science UTC	66	1	30
Lord Derby Academy	145	90	52
Maghull High School	79	87	33
New Park Primary (Academy)	146	78	64
North Liverpool Academy	205	44	120
Nutgrove Methodist Aided Primary	17	8	7
Oldershaw Academy	123	70	50
Our Lady of Pity (Academy)	78	30	22
Parish CE Primary (Academy)	40	22	15
Park View Academy	50	40	18
Poulton Lancelyn Primary School (Academy)	52	23	17
Prenton High School for Girls	123	0	49
Rainford High School (Academy)	128	56	58
Rainhill High School	136	72	62
Rainhill St Anns CE Primary School (Academy)	74	27	24
Range High School	158	96	59
Roscoe Primary (Academy)	57	29	20
Shoreside Primary School	17	7	5
St Andrews CE Primary (Academy)	41	21	13
St Anselm's College	91	21	33
St Edward's College	102	66	42
St Francis Xavier's College (Academy)	142	79	54
St James' Primary School (Academy)	12	4	5
St John Plessington Catholic College	205	76	73
St Joseph's Primary (Academy)	34	19	11
St Margaret's Church of England Academy	116	59	42
St Mary & St Thomas CE Primary School (Academy)	67	30	24
St Mary's Catholic College	192	118	61
St Michael's C of E High School (Academy)	105	87	47

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
St Silas C of E Primary School (Academy)	87	29	30
St Thomas C of E Primary (Academy)	51	19	19
Stanley High School (Academy)	91	62	31
Stanton Road Primary School (Academy)	49	19	16
Studio @ Deyes Academy	23	0	7
Sylvester Primary Academy	32	10	9
The Academy of St Nicholas	116	160	47
The Beacon C E Primary School (Academy)	51	26	21
The Belvedere Academy	117	21	51
The Birkenhead Park School	84	118	37
The Prescot School (Academy)	111	75	39
The Studio (Academy)	15	0	8
The Sutton Academy	124	106	60
Town Lane Infant School (Academy)	46	20	15
Townfield Primary	102	34	45
Upton Hall School	92	39	31
Weatherhead High School	175	90	77
West Derby School (Academy)	143	41	50
West Kirby Grammar School	79	49	32
Whiston Willis Primary (Academy)	50	21	14
Willow Tree Primary	2	1	1
Wirral Grammar Boys (Academy)	83	47	32
Wirral Grammar School for Girls	90	41	29
Woodchurch High School	331	142	120
Yew Tree Primary Academy	34	22	13
Admission Bodies (Community) (27)			
Age Concern – Liverpool	21	-21	8
Arriva North West	875	3,092	217
Association of Police and Crime Commissioners	114	16	69
Berrybridge Housing Ltd	41	48	15
Birkenhead School (2002)	30	-10	8
Care Quality Commission	31	87	10
Catholic Children's Society	31	26	5
CDS Housing	550	142	176
Citizens Advice Liverpool	34	0	6
Cobalt Housing Ltd	86	0	29
Commutual	35	0	12
Glenvale Transport Ltd/Stagecoach.	114	-22	32
Greater Hornby Homes	11	10	4
Greater Merseyside Connexions (Career Connect)	819	-741	228
Lee Valley Housing Association Ltd	37	35	12
Liverpool Hope University	59	96	9
Local Government Association	934	1,155	662
Merseyside Lieutenancy	13	0	4
North Huyton Communities Future	16	0	9
One Vision Housing Ltd.	1,071	225	385
Partners Credit Union	85	0	25
Port Sunlight Village Trust	23	0	8
South Liverpool Housing Ltd	96	185	29
Torus 62 Ltd	582	0	221
Welsh Local Government Association	314	0	177
Wirral Autistic Society (Autism Together)	633	-296	129
Wirral Partnership Homes Ltd (Magenta Living)	1,819	-253	796

Admission Bodies (Transfer) (47)	Contributions Received Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
Absolutely Catering (Longmoor)	8	0	2
Absolutely Catering (St Oswald's)	9	0	2
Addaction (Sefton)	19	0	6
Agilisys Limited	21	3	7
Agilisys Ltd (Sefton)	192	0	63
Balfour Beatty PFI SEN School	15	0	4
Balfour Beatty Workplace Limited	75	-6	23
Bouygues E & S FM UK Ltd	22	0	5
Castlerock Recruitment Group Ltd (CRG)	8	0	4
Caterlink Ltd.	17	7	4
Change Grow Live	13	0	3
Compass (Scolarest) Liverpool Schools	6	1	1
Compass (Scolarest) Wirral Schools	35	-2	8
Compass Contract Services (UK) Ltd	15	12	3
CWP (NHS)	391	0	138
Friends of Birkenhead Council Kennels	8	0	3
Fun 4 Kidz	3	0	1
Geraud Markets (Liverpool Markets)	12	27	4
Glendale (Liverpool Parks Services) Ltd	81	-81	25
Graysons Education Limited	3	0	1
Hochtief Liverpool Schools	29	1	7
Hochtief Wirral Schools	43	-4	10
Interserve (Facilities Mgmt.) Ltd	19	5	5
Kingswood Colomendy Ltd.	0	12	0
Knowsley Youth Mutual Ltd	119	0	48
L&T FM (Chroda)	16	0	5
Liverpool Vision Limited	238	-85	130
Mellors Catering - Birkdale	16	-1	4
Mellors Catering - St Anns	6	2	1
Mellors Catering - St Mary & St Thomas	2	1	1
Mellors Catering - St Paul & St Timothy	4	0	1
Orian Solutions	33	0	8
Sanctuary Home Care Ltd	37	0	12
Sefton New Directions Ltd.	596	-267	183
Shap Ltd	7	0	3
Siemens Mobility Ltd	6	0	2
SSE Contracting Limited	67	9	22
Tarmac Trading Ltd.	32	0	11
Taylor Shaw - Great Meols	6	0	1
Taylor Shaw - Hugh Baird	6	0	2
Taylor Shaw - Raeburn	6	0	1
Taylor Shaw - Range	10	0	2
Taylor Shaw - St Andrews	2	0	0
Veolia ES Merseyside & Halton	110	12	33
Volair Ltd	351	0	121
WCFT (NHS)	935	0	318
WIRED Ltd	20	0	7

Scheme Employers where contributions have been received during 2018/19 but they had no Active Scheme Members as at 31 March 2019

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
arvato Public sector Services Ltd.	486	-486	198
BAM Nuttall Limited	43	0	13
Birkenhead Market Services	35	5	12
City Healthcare Partnership CIC	4	0	1
Elite Cleaning and Environmental Services	1	0	0
Enterprise Liverpool Neighbourhoods	8	0	2
Helena Partnerships Ltd	1,464	120	327
Liverpool Mutual Homes Ltd	509	0	192
Mack Trading	6	0	2
Mersey Waste	0	254	0
Mosscroft Childcare Limited	1	0	0
Sefton Education Business Partnership	38	-9	9
Taylor Shaw Grange	3	1	1
The Kingsway Academy	15	41	6
Wirral Chamber of Commerce	2	0	0
Totals	**127,865**	**18,016**	**55,422**

Appendix B

Pensions Committee Items

16 July 2018

Audit Findings Report
Statement of Accounts / Letter of Representation
Draft Annual Report and Accounts
Budget Outturn 16/17, Final Budget 17/18
Pension Board Annual Report
LGPS Update
Data Protection Policy & GDPR Update
Treasury Management Annual Report
Revised Pension Board Terms of Reference
Communications Policy
Fundamentals Training
PLSA Annual Conference
LGC Investment Summit
GLIL Update
Pooling Update
Working Party Minutes

29 October 2018

LGPS Update
Draft Funding Strategy Statement
Responsible Investment Event
Pooling Update
LAPFF Conference
Annual Employers' Conference
Pension Board Minutes 13/06/18
LGPS Governance Conference
Interim Valuation
Admission Body Application
Write-off Pension Overpayments
Write-off Rent Arrears
Working Party Minutes 12/07/18 & 11/09/18

21 January 2019

Northern LGPS Draft Responsible Investment Policy
LGPS Update
Pension Fund Budget
Member Development Programme
Treasury Management Strategy
Update on Investment Strategy
LGC Investment Seminar
Pension Board Minutes
Pooling Update
Contractual Arrangements
Liability Risk Management
Working Party Minutes

25 March 2019

Audit Plan
LGPS Update
Fair Deal Consultation
PLSA Local Authority Conference
Risk Management
Pooling Update

Attendance Record 2018 – 2019

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 Jul	29 Oct	21 Jan	25 Mar	12 Jul	12 Mar	14 Jun	11 Sep	15 Nov	12 Mar
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•			•
Cllr George Davies (Vice Chair)	•	•	•	•					•	
Cllr Pat Cleary	•	•	•	•			•		•	•
Cllr Andrew Gardner	•	•		•				•		•
Cllr Pat Hackett	•	•	•	•						
Cllr Kathy Hodson	•	•	#	•						
Cllr Tony Jones	•	•	•	•			•			
Cllr Brian Kenny	•	•	•	•			•		•	•
Cllr Cherry Povall, JP	•	•	•	•				•	•	
Cllr Irene Williams	•	#	•	#						
Cllr Nick Crofts (Liverpool City Council Co-Optee)	•									
Cllr Ian Byrne (Liverpool City Council Co-Optee)*			•	•						
Cllr John Fulham (St Helens MBC Co-Optee)	•	•		•						
Cllr Jayne Aston (Knowsley MBC Co-Optee)				•						
Cllr Paulette Lappin (Sefton MBC Co-Optee)	•	•					•		•	•
Patrick Cleary (UNISON Co-Optee)	•									
Roger Bannister (UNISON Co-Optee)**	•	•		•	•	•	•	•	•	•
Sarah Brunskill (UNISON Co-Optee)			•							

#Deputy Attended

****Replaced Cllr. Nick Crofts***

*****Replaced Patrick Cleary***

Conferences

	PLSA	LGC Newport	PLSA	MPF Annual Conference	LAPFF Annual Conference	RI Event Aintree	LGC Investment Seminar	PLSA Edinburgh
	21-23 May	5-7 Sep	17-19 Oct	29 Nov	5-7 Dec	23 Jan	28 Feb - 1 Mar	6 Mar
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•	•
Cllr Andrew Gardner			•				•	
Cllr Brian Kenny			•	•	•		•	
Cllr Tony Jones			•					
Cllr Cherry Povall, JP		•	•	•			•	
Cllr Paulette Lappin (Sefton MBC Co-Optee)								
Roger Bannister (UNISON Co-Optee)	•		•	•		•		
Cllr Pat Cleary						•		

Appendix C

Information Contacts

Position	Name	Telephone number
Director of Pensions	Peter Wallach	0151 242 1390
Head of Pensions Administration	Yvonne Caddock	0151 242 1390

Area	Name	Telephone number
Accounts (Compliance, Financial Control & Management)	Donna Smith	0151 242 1390
Investments (Fund Assets' Management)	Linda Desforges	0151 242 1390
Employer Compliance and Membership (Transfers, Divorce, Admissions, Data quality assurance)	Sue Roberts/Paula Heaton	0151 242 1390
Benefits/Payroll (Retirement Calculations & Payments)	Barbara King/Keith Higgins	0151 242 1390
Operations (IT/Communications) (Systems Support, MyPension, Website, Events)	Guy Hayton	0151 242 1390

Resolution of Disputes

Employer Decisions	Head of Pensions Administration	0151 242 1390
Fund Decisions	Section 151 Officer	0151 666 3407

Scheme Employers Contacts

Arriva North West	Tina Edwards	0151 522 2807
Knowsley MBC	Jaci Dick	0151 443 5161
Liverpool City Council	Richard Arnold	0151 233 0375
Liverpool John Moores University	Jayne Brown	0151 231 8756
Merseyside Fire & Rescue Service	Julie Murdoch	0151 296 4245
Merseytravel (MPTE)	Lynne Gogerty	0151 330 1213
Merseyside Waste Disposal Authority	Paula Pocock	0151 255 2539
Office of the Police and Crime Commissioner for Merseyside (OPCCM)	Karen Blake	0151 777 8189
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Sarah Myers	0174 467 6627
Wirral Council	Andrea Williams	0151 691 8585

Report & Accounts 2018/19

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

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

Administering Authority Wirral Council

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**BUDGET OUT-TURN 2018/19 AND BUDGET FINANCIAL YEAR 2019/20**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request that Members note and approve:

- The out-turn for the financial year 2018/19.
- The finalised budget for the financial year 2019/20.
- The 3 year budget for MPF as required for the annual report.

1.2 The actual out-turn for 2018/19 is £17.6m, lower than the original budget approved 16 July 2018 of £22.0m and lower than the projected out-turn of £19.4m as reported at Pensions Committee on 21 January 2019. This lower figure is principally due to the Q4 sell-off in equity markets which reduced investment management costs.

1.3 The 2019/20 budget reported in January has been updated to reflect agreed reduction in unpaid leave, along with revised salary overheads, IT, actuary and departmental & central support charges; the finalised 2019/20 budget is £22.3m.

2.0 BACKGROUND AND KEY ISSUES

2.1 Pensions Committee, at its meeting on 21 January 2019, received an estimate of the out-turn for 2018/19 and it was also agreed that I would report back on the final out-turn. The finalised out-turn is included in appendix 1. The actual out-turn for 2018/19 is lower than the projected out-turn reported in January 2019, due to the number of estimates required for the January report.

2.2 Pensions Committee at its meeting on 21 January 2019 agreed the budget for 2019/20 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

2.3 The finalised budget is included in this report in appendix 1, the variances from that reported in January are:

- Staffing now reflects the reduction in unpaid leave and salary related recharges.
- Updated IT budget to reflect planned IT projects.

- Updated actuary fees to reflect valuation work and other planned projects.
- Updated estimate for central establishment charges.

2.4 CIPFA have published a document outlining best practice for the contents of the annual reports of LGPS Funds, this includes financial performance including 3 year budgets.

2.5 The projected 3 year budget for MPF is detailed in the table below:

	2019/20	**2020/21**	**2021/22**
Employees	3,799,384	3,875,372	3,952,879
Premises	197,259	201,401	205,631
Transport	54,052	55,187	56,346
Investment fees	14,044,397	15,013,460	16,049,389
Other Supplies and Services	2,750,369	2,808,127	2,867,097
Third Party	1,113,510	1,136,894	1,160,768
Recharges	359,641	359,641	359,641
Total	**£22,318,612**	**£23,450,082**	**£24,651,751**

2.6 The assumptions used in the preparation of these 3 years budgets are as follows:

Staffing	Proposed Structure to be fully staffed throughout year 2% pay rises in subsequent years.
Investment management Fees	Estimate based on existing mandates with normal market conditions and 50% of investment mandates achieving performance targets.
Rent	Agreed as a notional charge based on market rates (MPF owns building).
Transport, Conferences and Subsistence	Estimated requirements for current year.
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements.
Inflation adjustments	CPI 2.1% as at April 2019.
Investment Performance	This has been derived from the long-term return assumptions for MPF by the Actuary.

2.7 Reduced costs and excellent value for money is a pooling criterion and Investment management fees are a significant element of the Fund's costs. The Fund and Northern LGPS use CEM to benchmark investment management fees and analyse these costs in the context of risk and return, and relative to other LGPS funds and private pension funds internationally. The information is used by the Fund and the Northern LGPS to ensure the effectiveness of the Fund's expenditure in this key area. The CEM benchmarking report for 2018/19 will be presented to a future Investment Monitoring Working Party.

3.0 RELEVANT RISKS

3.1 This has not changed since the report in January as below.

The Fund has recently reviewed its Risk Register and identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage investments. This budget provides adequate resources for these two core functions.

4.0 OTHER OPTIONS CONSIDERED

4.1 This has not changed since the report in January as below.

The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements have recently been subject to review and the Fund is part of the "Northern LGPS" working on proposals for pooling LGPS investments to deliver reduced costs. Staffing arrangements were reviewed during 2017/18.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment income and employee and employer contributions. The proposed costs of £22.3m including £14.0m of investment management charges to external managers represent a cost of £161.06 per member of the scheme. Taken separately the investment management costs of £14.0m are £101.35 per member of the scheme and 0.16% of total assets under management.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

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

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

12.0 RECOMMENDATION/S

12.1 Members note the out turn for 2018/19.

12.2 Members approve the finalised budget for 2019/20.

12.3 Members approve other issues for inclusion in the 2018/19 Annual Report including 3 year financial estimates.

13.0 REASON FOR RECOMMENDATIONS

13.1 The approval of the budget and annual report for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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APPENDICES

The budget for 2019/20 including the out-turn for 2018/19 is attached as appendix 1 to this report.
The original appendix as reported to Members on 21 January 2019 is attached as appendix 2 to this report for information.

REFERENCE MATERIAL

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

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee :	
Pension Fund Budget	**21 January 2019**
Pension Fund Budget	**16 July 2018**
Pension Fund Budget	**22 January 2018**
Pension Fund Budget	**16 July 2017**
Pension Fund Budget	**23 January 2017**
Pension Fund Budget	**4 July 2016**

Appendix 1

Value of the Fund	£8.9bn	*31/03/2019*
Investment income Received	£231m	*Projected 2019/20*
Pensions Paid	£348m	*Projected 2019/20*
Contributions Received (see note 1)	£214m	*Projected 2019/20*
Active Contributing members	46,726	*31 March 2019*
Deferred members	40,259	*31 March 2019*
Pensioners	51,585	*31 March 2019*
Total Members	138,570	*31 March 2019*

		Budget 2018/19 (£)	Actual Out-Turn 2018/19	Budget 2019/20 (£)
Employees				
	Pay, NI and Pension	3,339,555	2,770,381	3,511,972
	Training	20,000	10,625	20,000
	Other Staffing Costs	270,758	250,762	267,412
		3,630,313	**3,031,768**	**3,799,384**
Premises				
	Rents	190,608	190,608	197,259
		190,608	**190,608**	**197,259**
Transport				
	Public Transport Expenses	53,733	31,706	52,190
	Car Allowances	1,630	1,581	1,862
		55,363	**33,287**	**54,052**
Supplies				
	Furniture and Office Equipment	14,000	6,310	14,000

Printing and Stationery	32,000	20,791	23,800
Computer Development and Hardware	643,000	470,404	703,000
Postages and Telephones	97,250	87,402	94,000
External Audit	41,000	30,579	30,000
Services and Consultants Fees	1,588,350	930,109	1,638,680
Conferences and Subsistence	47,893	24,913	40,097
Subscriptions	147,360	140,496	145,392
Other	65,835	59,212	61,400
	2,676,688	**1,770,216**	**2,750,369**
Third Party			
Medical Fees	3,500	840	3,500
Bank Charges	20,000	14,996	10,000
Investment Management Fees	14,235,600	11,205,327	14,044,397
Custodian Fees	300,000	200,975	300,000
Actuarial Fees (net)	280,000	485,088	500,000
Other Hired and Contracted Services	277,033	308,725	300,010
	15,116,133	**12,215,951**	**15,157,907**
Departmental & Central Support Charges	363,879	348,134	359,641
	363,879	**348,134**	**359,641**
Total Expenditure	**22,032,984**	**17,589,964**	**22,318,612**

Note 1 The estimated contributions for 2019/20 are lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2016 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions during 2017/18, with the subsequent 2 years contributions being lower to account for the upfront payments.

Appendix 2

Value of the Fund	£8.9bn	*30/09/2018*
Investment income Received	£221m	*Projected 2019/20*
Pensions Paid	£332m	*Projected 2019/20*
Contributions Received (see note 1)	£213m	*Projected 2019/20*
Active Contributing members	49,151	*31 March 2018*
Deferred members	38,176	*31 March 2018*
Pensioners	50,160	*31 March 2018*
Total Members	137,487	*31 March 2018*

		Budget 2018/19 (£)	Probable Out-Turn 2018/19	Budget 2019/20 (£)
Employees				
	Pay, NI and Pension	3,339,555	2,706,004	3,498,471
	Training	20,000	11,533	20,000
	Other Staffing Costs	270,758	276,217	267,360
		3,630,313	**2,993,754**	**3,785,831**
Premises				
	Rents	190,608	190,608	197,259
		190,608	**190,608**	**197,259**
Transport				
	Public Transport Expenses	53,733	28,007	52,190
	Car Allowances	1,630	1,838	1,862
		55,363	**29,845**	**54,052**
Supplies				
	Furniture and Office Equipment	14,000	7,630	14,000

Printing and Stationery	32,000	14,333	26,500
Computer Development and Hardware	643,000	634,406	668,000
Postages and Telephones	97,250	88,053	94,000
External Audit	41,000	41,000	30,000
Services and Consultants Fees	1,588,350	985,542	1,638,680
Conferences and Subsistence	47,893	22,123	40,097
Subscriptions	147,360	139,972	145,392
Other	65,835	57,804	61,400
	2,676,688	**1,990,863**	**2,718,069**
Third Party			
Medical Fees	3,500	840	3,500
Bank Charges	20,000	12,426	10,000
Investment Management Fees	14,235,600	13,202,978	14,044,397
Custodian Fees	300,000	172,434	300,000
Actuarial Fees	280,000	280,000	310,000
Other Hired and Contracted Services	277,033	242,829	300,010
	15,116,133	**13,911,507**	**14,967,907**
Departmental & Central Support Charges	363,879	363,879	363,879
	363,879	**363,879**	**363,879**
Total Expenditure	**22,032,984**	**19,480,456**	**22,086,997**

Note 1 The estimated contributions for 2019/20 are lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2016 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions during 2017/18, with the subsequent 2 years contributions being lower to account for the upfront payments.

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of a Wirral Council motion debated at the Council meeting on 18 March 2019.

2.0 BACKGROUND AND KEY ISSUES

2.1 An extract from the Council papers in relation to the motion is set out below.

FUTURE PENSIONS FIT FOR PURPOSE *(to be debated)*

Proposed by Councillor Pat Cleary
Seconded by Councillor Paul Doughty

Council welcomes the success of the Merseyside Pension Fund (MPF) in expanding its membership to over 137,000 and raising its fund value to £8.6 billion.

Council believes,

- the MPF has an important role to play in securing the future success and quality of life of our region by providing a reliable source of income to our ageing population and through its ability to invest funds wisely in the local economy.

- that climate change represents a systemic threat to the future value of financial assets and, as the Governor of the Bank of England has warned, a carbon budget consistent with the 2°C target laid down in the Paris Climate Accord "would render the vast majority of {fossil fuel} reserves stranded".

Council therefore welcomes,

- the mandate from the Pensions Committee that MPF's investment strategy be brought into line with the goals of the 2015 Paris Accord

- the recent launch on the London Stock Exchange by MPF of the All World Climate Balanced Comprehensive Factor Index with an initial funding of £400 million

- and the goals of the Index to achieve reductions in risk to future pensions via substantial cuts in exposure to companies with high fossil fuel reserves and high carbon emissions and increased exposure to companies with high exposure to "green" revenues

Council congratulates MPF officers on their efforts to protect its members from climate-related financial risk and looks forward to further, sustained work to fully align its investments with the goals of the Paris Accord.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

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

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members note the report

14.0 REASON/S FOR RECOMMENDATION/S

14.1 It is important that Committee is informed of the views of the Fund's major stakeholders.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSION COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report covers two government consultations, 'Restricting Exit Payments in the Public Sector' published by HM Treasury, and 'Changes to the Local Valuation Cycle and Management of Employer Risk' by the Ministry of Housing Communities & Local Government (MHCLG).

1.2 The HM Treasury consultation was issued on 10 April 2019 with a closing date of 3 July and the MHCLG consultation was issued on 8 May 2019, closing on 31 July.

1.3 The Fund response to the HM Treasury consultation was shared with the Chairs of Pension Committee and Pension Board for comment and approval prior to submission - attached as Appendix A for noting.

1.4 A draft response to the MHCLG consultation is attached as Appendix B for Member consideration, comment and approval.

1.5 The report also updates Members of recent developments on the Scheme Advisory Board review of governance models for the LGPS.

2.0 BACKGROUND AND KEY ISSUES

Restricting Exit Payments in the Public Sector (95k Cap) consultation

2.1 Members are aware, as reported at the Committee meeting dated 15 November 2016 (minute 128 refers), of the Government's intent to cap the cost of early retirement packages within the public sector at a total cost of £95,000 per employee.

2.2 The recent HM Treasury consultation on restricting exit payments defines the specific payments to be measured against the cap and those payments which are exempt.

2.3 Payments made to a pension scheme to fund the cost of early release of benefits are included as pay elements assessed against the cap. As the LGPS is a defined benefit scheme the interactions between pay and length of service are the key determinant as to whether a member will be impacted by the cap.

2.4 To demonstrate the effect of the cap on members pension benefits the Local Government Association have undertaken high level analysis of the circumstances in which the cap will be applied.

For example a member with moderate earnings of £23,500 per annum with 35 years' service and a severance payment of £18,306 will be captured by the cap, potentially leading to personal financial hardship during retirement.

2.5 The draft regulations highlight which employers are in scope but contain a number of technical inconsistencies and do not provide details on the impact on the LGPS.

2.6 It is anticipated that MHCLG will issue a separate consultation to cover a number of issues including the implementation of an appropriate costing methodology along with standardised factors to calculate the strain payments associated with the early release of pension benefits.

2.7 It is unclear how redundancy cases will operate in the LGPS and how the cost of paying pensions early will be determined across the LGPS if the regulations are not amended before the HMT Regulations come into force.

2.8 Introducing a cap on exit payments will have significant implications for employers, administering authorities and LGPS members.

The Full consultation can be accessed from the following link:

https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

Consultation on changes to the local valuation cycle and the management of employer risk policy

2.9 MHCLG have opened a twelve week policy consultation called 'Changes to the local valuation cycle and the management of employer risk policy'. The consultation contains proposals to amend the LGPS regulations 2013 in the following areas;

- Amendments to the local fund valuation from a triennial to a quadrennial cycle to align with the scheme revaluation:

- A number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- Proposals to introduce flexibility for exit payments
- Proposals for further policy changes to exit credits
- Proposals to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer LGPS membership to new employees.

2.10 The Full consultation can be accessed from the following link:

https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7

Good Governance Review

2.11 In January 2019, the Scheme Advisory Board (SAB) commissioned Hymans Robertson to facilitate a review of governance models for the LGPS. The purpose is to consider measures to raise standards, manage conflicts effectively and ensure the Scheme remains appropriately resourced to deliver its statutory functions.

2.12 Hymans issued an online fact find questionnaire to key stakeholders namely; Directors of Pensions, Section 151 officers, chairs of the pension committee and local pension board, union representatives and LGPS advisors. The findings of the exercise will form the basis of the report to be presented to SAB in July.

Proposed Models

2.13 The models proposed are summarised below and those in scope all maintain the link to local democratic accountability.

Option 1 - Improved Practice
Introduce guidance or amendments to LGPS Regulations 2013, to enhance the existing arrangements by increasing the independence of the management of the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures
Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 - Joint Committee (JC)

Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - Combined Authority (CA)
Establish a CA, a local authority in its own right and a separate legal entity, which exists for the sole purpose of administering an LGPS fund.

2.14 It is clear the same model will not suit the different characteristics and local circumstances of each fund across the LGPS.

2.15 The findings of the exercise will form the basis of the report to be delivered to SAB in July, who following their consideration will publish recommendations for further comment prior to presentation at MHCLG.

3.0 Relevant Risks

3.1 The transition from local triennial to quadrennial valuation cycles increases the risk of funding and investment strategies becoming misaligned due to significant changes in market conditions during the inter valuation period, leading to increased costs for both employers and taxpayers.

3.2 The proposal to introduce deferred employer status within the LGPS will improve governance as administering authorities can utilise as a tool to manage employer risk and to mitigate the exposure of irrecoverable debt falling across the remaining employers in the fund.

4.0 Other Options Considered

4.1 Not relevant for this report.

5.0 Consultation

5.1 Not relevant for this report

6.0 Outstanding previously approved actions

6.1 None associated with the subject matter.

7.0 Implications For voluntary, community And Faith Groups

7.1 There are none arising from this report.

8.0 Resource Implications: Financial: IT; Staffing and Assets

8.1 The £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will be severely restricted for a number of members.

8.2 As such the new regulations will reduce pension costs for affected employers given that the total exit payments made to employees will now be capped.

8.3 Separate administrative processes will need to be implemented by the Fund for those employers covered by the cap, and for those not covered. The Fund will need to establish and keep a clear record of which employers fall into each category

8.4 The proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer membership of the LGPS to new entrants could lead to a reduction in the active membership base with an adverse impact on cash flow and the pace of scheme maturity.

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:

a) note the response sent to HM Treasury regarding the consultation on 'Restricting Exit Payments in the Public Sector', and

b) approve the Fund's draft response to the MHCLG consultation on 'Changes to the Local Valuation Cycle and Management of Employer Risk'

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.

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APPENDIX 2&3

Fund response to HM Treasury consultation on 'Restricting Exit Payments in the Public Sector'

APPENDIX 1

Fund draft response to MHCLG consultation on 'Changes to the Local Valuation Cycle and Management of Employer Risk'

Merseyside
PENSION FUND

Direct Line: 0151 242 1390

Please ask for: Yvonne Murphy

Date: 18 July 2019

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

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

Dear Sirs

Local Government Pension Scheme:
Changes to the Local Valuation Cycle and the Management of Employer Risk

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 in England and Wales, with assets 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.

1/ Our Response

Principally MPF supports the overall intent of the proposals as generally the changes appear sensible and introduce flexibility for employers in managing their exits from the scheme.

A proposal on which we do not agree, is the transition of the local valuation to a four-year cycle. It is our opinion that this will weaken the ability of the Administering Authority to govern the Fund and manage risk effectively. Equally, our recent engagement with employers demonstrates their expectation for more dynamic techniques to manage the cost of the scheme; extending the valuation period is counter to this expectation.

Furthermore, as the LGPS is a funded scheme, the investment strategy is aligned to the actuarial valuation and less frequent reviews may lead to missed opportunities to refine the strategy leading to a cost to both employers and taxpayers.

Whilst we do not agree with a four year valuation cycle, the additional flexibility to undertake interim valuations would be acceptable on the basis that the ability to review employer contributions is not overly prescriptive and the associated guidance affords local flexibility when formulating policies to manage funding, investment and covenant risk.

2/ Specific Questions within the Consultation

CHANGES TO THE LOCAL FUND VALUATION CYCLE

Q1	RESPONSE
As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?	As a funded scheme, we do not believe it is appropriate for funding and risk management policies for the LGPS to be set by reference to what happens in the unfunded schemes. Our preference would be to retain the existing three-year cycle, as we feel this is an appropriate period over which to set the contribution rates for employers and manage the resultant risks, before reviewing them again at the next actuarial valuation. MPF has developed a number of robust risk management strategies and moving to a quadrennial valuation does not align conceptually with the strategic objectives of reducing volatility in funding plans. However, when combined with the other measures in this consultation around interim valuations and reviewing employer contributions in between formal actuarial valuations the proposal is in our view acceptable overall as long as the ability to undertake interim valuations is not overly constrained
Q2	
Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?	The accounting standards IAS19 and FRS102 normally require figures to be based on actuarial valuations carried out at least triennially, and as a result, auditors would require the accounting liabilities to be assessed more accurately. Further, as a result of pressure from the FRC, auditors are becoming more prescriptive about the approaches they will accept, and this also adds some weight to valuation cycles not being extended. Even if CIPFA were to relax their own requirements it is unlikely that any such relaxation could be extended to employers other than councils/authorities as CIPFA does not have jurisdiction for such employers. There is therefore a risk that, in effect, auditors will require interim valuations perhaps every two years offsetting any marginal savings from extending out the valuation cycle. The move to a 4-year cycle for the statutory valuation will by nature mean that governance is weakened unless a LGPS Fund's policy in relation to interim valuations is robust and fit for purpose. It is therefore critical that the guidance encourages the adoption of robust policies for all Funds to improve the governance for the LGPS generally and is fair to employers in relation to managing risk on their behalf.
Q3	
Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?	We do not see any reason why this is necessary and do not subscribe to the view that it allows the quality of the data provided to the GAD to be better improved as the majority of LGPS Funds have improvement plans over much shorter timescales. We appreciate that the cost management process may cause changes in benefits or member contributions outside the actuarial valuation cycle, but this is something which Funds have to contend with in any event (e.g. changes due to GMP equality issues, changes in State Pension Ages and court/tribunal cases such as McCloud can all give rise to changes in benefits or member contributions outside of a normal actuarial valuation). A simpler solution in our view would have been to retain the three-year cycle and introduce the ability to review contribution rates for any changes from the cost management process.

TRANSITION TO A NEW LGPS VALUATION CYCLE

Q4	RESPONSE
Do you agree with our preferred approach to transition to a new LGPS valuation cycle?	If it is decided that four-year cycles will be introduced from 2024 then we agree with the preferred approach to transitioning by doing a valuation at 2022 and then 2024. A five-year contribution schedule has disadvantages relating to scheme governance and potential larger changes in contribution rates due to additional inter valuation experience. If the outcome was to move to a five-year gap between valuations, a full interim review would be required to align with our existing risk management strategy to protect employers within the Fund.

ABILITY TO CONDUCT AN INTERIM VALUATION OF LOCAL FUNDS

Q5	RESPONSE
Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?	Yes, irrespective of the 4-year cycle change, we feel it is essential to Funds' governance and procedures that there should be a mechanism for reassessing employer funding positions and contribution outcomes when the circumstances warrant it. The Fund is managing a complex set of risks and the level of employer contributions is a key component of the effective management in conjunction with the employers. .
Q6	
Do you agree with the safeguards proposed?	We do agree that there should be some safeguards but care needs to be taken on how these are applied consistently. At a high level, the facility needs to be sufficiently flexible that it can be called on in the event that there is a significant change in financial markets or Scheme benefits, to the extent that an interim valuation/funding update is merited. However, there need to be safeguards on the governance of the arrangements. For example, it would be wrong to perform an interim valuation to ease employer budgets when the outcome is expected to be favourable but never when the outcome is less favourable. The safeguards proposed are that the valuation/update should only be permitted in the circumstances set out in the Funding Strategy Statement, (FSS) but with some additional flexibility in the event of exceptional circumstances. In our view, this is correct, but the guidance needs to ensure its clear that Funds need to be robust in determining the criteria in conjunction with their Actuary. This will need to documented in the FSS at the 2019 valuation if the proposal in the consultation proceeds so timing of any guidance needs to be formatted before the FSS is finalised to avoid having to update the FSS soon after the valuation is signed off.

REVIEW OF EMPLOYER CONTRIBUTIONS

Q7	RESPONSE
Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?	We strongly support the principle of allowing more frequent reviews of employer contribution rates. Again, at a high level, the facility needs to be sufficiently flexible that it can be called on in the event that there is a significant change in financial markets, Scheme benefits or employer circumstances e.g. change in covenant, to the extent that a review is merited. In line with the proposed approach for interim valuations we believe that the Funding Strategy Statement should set out the circumstances in which a review of employer contributions can or should be carried out. These circumstances might be wider than as outlined in the consultation document, which focuses strongly on changes in employer covenant, and we would suggest that other areas that materially affect the cost (for the employer) and risk (to the Fund) should be included. This can be such aspects as a significant change in market outlook, changes in Scheme benefits and change in affordability of contributions which could be to the detriment of the viability of an organisation.

GUIDANCE ON SETTING A POLICY

Q8	RESPONSE
Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?	Our preference would be for Funds to have the flexibility to set the parameters for carrying out interim valuations and/or employer contribution reviews within their Funding Strategy Statements, which would lead to an open and transparent approach. However, guidance would be helpful to provide consistency of treatment as well as ensuring all Funds do apply a common level of governance in managing the overall financial risks. It would be more practical if all the principle-based guidance on the FSS were in the same place, ideally provided by CIPFA in accordance with Regulation 58. .
Q9	
Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?	It is important that it is clear that administering authorities and not employers have the final say on reviewing employer contributions. Employers may request interim valuations for accounting purposes and administering authorities should be able to accede to those requests without then being obliged to review the employer's contributions.

FLEXIBILITY ON EXIT PAYMENTS

Q10	RESPONSE
Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?	First of all, it is important to bear in mind that no Fund calculates exit payments on a "full buy-out basis" as far as we are aware which is a term used where a scheme insures the benefits with a third-party insurance company. To avoid confusion going forward in any guidance or explanatory literature we would recommend that this terminology is dropped and replaced by "termination basis" given Funds do not all use the same approach. The approach depends on the policy adopted by the individual Fund and MPF's aligns the investment strategy backing the exit liabilities. In relation to the specific question on flexibilities we agree that flexibility is very important as circumstances are very varied, although we would note that there are already flexibilities for the spreading of exit payments and adjustment of contributions in the run-up to exit. These are covered in Regulation 64(4) and the definition of "exit payment" within Regulation 64, so we do not think there any is necessity for further material regulation change in this particular area except to allow a review of the exit payments over the spread period to reflect any change in circumstances e.g. market conditions or employer circumstances. We do not believe any other protections are required as the critical aspect is the ongoing assessment of the covenant to ensure the exit payments are recovered.

DEFERRED EMPLOYER STATUS AND DEFERRED EMPLOYER DEBT ARRANGEMENTS

Q11	RESPONSE
Do you agree with the introduction of deferred employer status into LGPS?	Yes, as this will allow us to better manage our employer risk and therefore risk to taxpayers in conjunction with the employer. Provided that the administering authority is given sufficient flexibility to be able to manage such provisions and these are documented in the Fund policies we believe this will be an extremely valuable addition to the Regulations which will help both Funds and employers.
Q12	
Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?	In general, yes we agree with the proposed approach. However, there appears to be an over emphasis on employer covenant, and whilst important it is not the only factor that should determine the approach to deferred debt arrangements – for example also adopting a lower risk investment strategy would assist in the overall management of risk in a deferred debt arrangement. We would prefer Funds to be allowed to set their own policies and guidance around this arrangement to ensure sufficient safeguards are available for the administering authorities

PROPOSED APPROACH TO IMPLEMENTATION OF DEFERRED EMPLOYER DEBT ARRANGEMENTS

Q13	RESPONSE
Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?	We agree that the Regulations should be "enabling" in nature only, and not prescriptive or restrictive. We agree that statutory guidance will be helpful in some cases in ensuring that Funds are able to take a sufficiently robust approach with employers as long as this is on a principle-basis. The more detailed operational aspects should be covered in each Fund's policies in line with these principles. Ultimately it should be for administering authorities, having taken appropriate advice, to weigh up the risks and competing interests of stakeholders so it is fitting that these matters should be for fund discretion.

SUMMARY OF OPTIONS FOR MANAGEMENT OF EMPLOYER EXITS

Q14	RESPONSE
Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?	Yes, we agree that these options should exist as alternatives. However, we believe that administering authorities should be able to determine the circumstances in which option 3 may apply and covenant is critical to this. We also believe that under option 2 the repayment schedule can be periodically reviewed if circumstances warrant it e.g. a significant change in market conditions and/or affordability of the repayments.
Q15	
Do you consider that statutory or Scheme Advisory Board guidance will be needed, and which type of guidance would be appropriate for which aspects of these proposals?	Statutory guidance will be helpful in ensuring that Funds are able to take a sufficiently robust approach with employers on a principle-based approach. More detailed operational aspects can be covered in Fund policies.

EXIT CREDITS UNDER THE LGPS REGULATIONS 2013

Q16	RESPONSE
Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?	We are in absolute agreement as this is fair in the context of the overall responsibility of cost and risk between the exiting employer and the scheme employer. However, we believe that there should be a regulatory provision for the Scheme employer to ensure the information on these risk sharing arrangements is supplied to the Administering Authority so the correct treatment can be applied in a timely manner. This will avoid any conflict between the scheme employer and fund over the inadvertent incorrect application due to lack of provision of the information.
Q17	
Are there other factors that should be taken into account in considering a solution?	No

FURTHER EDUCATION CORPORATIONS, SIXTH FORM COLLEGE CORPORATIONS AND HIGHER EDUCATION CORPORATIONS

Q18	RESPONSE
Do you agree with our proposed approach?	We regard the determination of the employers which are required to offer LGPS membership as being a policy area for Government (and each individual employer), and in particular those areas of Government which provide funding to those specific employers. The effect will vary from Fund to Fund but it will need to be noted that this proposal will lead to a gradual maturing of those employers' LGPS liabilities. This will generally increase contribution rates initially for these employers due to the closed nature of the membership. Equally the cash flows for these employers and the Fund will be affected over time.

PUBLIC SECTOR EQUALITY DUTY

Q19	RESPONSE
Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?	No equality issues occur to us in the context of our operation of the Fund. The change in the status of the education employers as per Q18 would create inequality at an employer level but that is a matter for the employers.

3/ Conclusion

As the main focus of the proposal centres around the transition of the local valuation cycle from triennial to quadrennial, we are of the opinion that the rationale is tailored for long–term, secure employers fully backed by taxpayers.

In reality, LGPS funds have a larger number of employers without tax raising powers , principally community admission bodies and HE/FE bodies, some of which are increasingly short–term in nature and whose covenant is liable to rapid change .To effectively manage the risk of these employers more frequent assessments of liabilities and the flexibility to review contributions is required.

Following recent engagement with long term statutory employers, it is our opionion that flexibilty to perform more frequest assement of contributions is necessary to align with short–term budget setting in order to manage service demands. As such it is questionable whether a fixed four year cycle would provide a sufficient level of confidence in the governance of financial plans for all constituent employers . It is also imperative that the Fund is able to monitor cashflow and funding plans with the flexibity to change employer contributions as appropriate in between the formal valuation cycle in order to continue to develop its risk management policies.

Yours faithfully

Yvonne Murphy
Head of Pensions Administration

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Workforce, Pay & Pensions Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

c/o **ExitPaymentCap@hmtreasury.gov.uk**

Direct Line: 0151 242 1390

Please ask for: Yvonne Murphy

Date: 3 July 2019

Dear Sirs

Restricting Exit Payments in the Public Sector:
Consultation on Implementation of Regulations

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 in England and Wales, with assets 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.

1/ Our Response

The Fund supports the comments made by the LGA relating to the technical inconsistencies throughout the draft regulations and guidance as to the impact on the operation of £95,000 exit cap and the alignment of the policy intent with the LGPS regulations. For example, regulation 6 lists elements defined as exit payments but does not specify that the total of these payments should be measured against the cap. In addition, the order in which exit payments should be capped is not specified and to avoid variation in the application of the exit cap across the LGPS, the sequence of exit payments to be assessed should be specified in the regulations.

The primary focus of MPF with regard to the proposals is how the restrictions on Exit Payments are implemented in the LGPS Regulations given the current position is that members who exit the Fund age 55 or over on Redundancy or Efficiency grounds have a right to immediate pension scheme benefits unadjusted for early payment; this has a cost that needs to be allowed for in the Exit Payment Cap calculation.

Therefore, the policies and processes will need substantially updating to cope with the implementation of the exit cap with a need for a consistent approach across the LGPS, to ensure fair treatment for the employees affected. In addition, the software providers will need time to update systems to deal with the impact of this new legislation. This will lead to substantive setup costs and an increase in the ongoing administration costs; especially given that employers in scope of the Regulations will need to be treated differently to those out of scope.

More detail on the practical issues are set out in the attached note (Appendix A), provided by our Actuary and adviser (Mercer Ltd). This note sets out clearly the issues the Fund and our employers will have to contend with in administering the proposed restriction on exit payments.

2/ Key Concerns

The Fund shares the concerns highlighted in the formal LGA response, that the proposed draft regulations which include payments made to a pension scheme will capture members with long service earning less than £23,500 per year, resulting in personal financial hardship during retirement. This is exacerbated by the removal of the anticipated salary floor together with the absence of a proposal to index the £95,000 limit – so more people with salaries below the UK average will be affected in the future years.

Substantial clarification is required on the impact of the cap for the LGPS, as there are no clear guidelines on the application of the cap to provide a" fair choice" for the member between a reduced pension and the cash alternative referred to in the draft regulations. In addition the LGPS regulations should be amended to permit members to defer access to benefits if reductions apply due to the cap.

The reliance of an Equality Impact Assessment undertaken during the previous consultation in 2015 may not meet obligations under the Public Sector Equality Duty 2010 and therefore the draft Regulations are at risk of legal challenge; causing confusion and potential additional costs for local authorities, particularly in circumstances where employees proceed with action through the Employment Tribunal Service.

A further issue is that the processes outlined to secure exemptions to the cap are overly bureaucratic and challenge the capacity of local government to make decisions in the interests of local taxpayers. The layered process will frustrate employer engagement with employees and inhibit the responsiveness of local authorities to changing situations.

The Fund is concerned that there will be the potential of a new statutory requirement on administering authority to undertake an oversight and governance role on an employing authority's correct application of the exit payment restrictions. We are resolute that it is not the Pension Fund's responsibility to validate whether an employer's relaxation of the cap is in accordance with the HM Treasury Direction and any relevant guidance.

3/ Specific Questions within the Consultation

We set out below our position to each of the questions, although several of the questions raised are a matter of Government policy so are not an area where the Fund has a view or standpoint.

However, our participating public sector employers (including Wirral Council) may have a view on these matters.

Q 1	RESPONSE
Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)?	These are a matter of Government policy so not an area where the Pension Fund has a particular view. Our participating public sector employers may have a view on these matters either individually or through collective forums e.g. the Local Government Association. However, on a practical basis the restrictions will not cover all employers who participate in our Fund leading to different pension Fund policies and processes being required.
Q 2	
Do you agree with the current list of bodies in scope, for the first round of implementation?	
Q 3	
Do you agree with the exemptions outlined?	

Q4	RESPONSE
Does the guidance adequately support employers and individuals to apply the draft regulations as they stand?	This is strictly a matter for employers and individuals (principally through their representative bodies) so is not an area where the Pension Fund has a particular view except that the guidance must allow the employers to develop appropriate and clear policies on how the exit cap is applied. We would however note that the application relies on a significant amount of data being readily available to all parties to govern the application of the exit cap. In particular, the final assessment in relation to pension strain costs in the LGPS would need to be carried out after the final data is collated around pay and non-pension exit payments. Otherwise, this could result in some cases that were thought to be under the cap actually then exceeding it if the final data is materially different. The final guidance and processes therefore need to deal with the flow of data adequately. This is especially important as the decisions an individual will need to make in respect of their LGPS pension entitlement would likely be different if they are under/over the exit cap (based on our interpretation of the application). All parties therefore need clarity on when the cap applies and also the information needed to apply it consistently and in line with the final regulations. In relation to the Regulations as they apply to the LGPS (as introduced by the Enterprise Act 2016, albeit not yet in force), there is at present no clarity on how the process would work in applying the exit cap restriction in respect of early retirement pension benefits, so there is a danger of different LGPS Funds and employers applying the restriction in different ways. In our view, it would be more helpful if, in cases where the restriction applies, members could be given the choice of taking the value of the (restricted) pension enhancement in cash form, but with the member then being given the option of using their exit payment to buy-back part of the pension enhancement. Given that we feel that the amending Regulations under the exit cap are somewhat ambiguous in their operation, we would prefer to see these particular provisions removed, and the MHCLG tasked with producing a set of amending Regulations and guidance to give full effect to the exit cap restrictions. The Regulations will still require an exiting member who is over age 55 to commence his LGPS pension. This seems to us overly restrictive in a case where a member is not able to take a full unreduced pension and we would prefer to see some flexibility for the member to take deferred benefits instead if that suited their particular circumstances. Again, this adds weight to the view that the Enterprise Act Regulations as they apply to the LGPS should not be brought into effect in their current form.

Q 5	RESPONSE
Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?	This is strictly a matter for Government and employers so is not an area where the Pension Fund has a particular view except that the guidance must allow the employers to develop appropriate and clear policies on how any relaxations of the exit cap is applied.
Q 6	
Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance?	We would welcome the guidance making it clearer that it is not the responsibility of the pension fund to consider if the relaxation has been applied in line with the guidance and directions. The pension fund should only implement the pension benefits as per the LGPS Regulations as directed by the employer on whether a relaxation is applied. One technical aspect that needs to be incorporated into these Regulations or separately into changes to the LGPS Regulations is the option for a member to defer taking their reduced pension benefits (due to the exit cap restriction) if they choose to do so. This, in our view, is critical as supports the general abilities for members to make choices in how they receive pension benefits. It is also possible that taking reduced benefits may not be in the best interests of the member at that time as they may not then adequately meet the basic level of income required to maintain living standards throughout their retirement.
Q 7	
Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?	Please see attached document (Appendix A) in relation to the impact on the Fund and the practical/technical issues that need resolution in the application. This forms part of our response to the consultation and has been prepared in conjunction with our adviser (Mercer Ltd).
Q 8	
Are you able to provide information and data in relation to the impacts set out above?	We can provide an analysis of the pension strain cost amounts for the Fund where they exceed the cap of £95k if this would be helpful. We note that allowing for statutory redundancy payments (which must be paid) will reduce the headroom to apply to pension strain costs below the £95k when determining if a member's benefits need to be reduced in order to ensure that all payments remain within the exit cap.

4/ Conclusion

The Fund has considered the formal LGA consultation response and is in support of all its findings and points made therein. In addition, I hope the information and responses above are useful and assist the Ministry in formulating the final policy and regulatory position.

Consideration should be given to the level of complexity that will result from the introduction of exit payment restrictions as the Fund will have the daunting task of communicating to members the numerous options and the associated impact on pension benefits.

The Fund would welcome measures to simplify the application of the restrictions; for example, provisions should prescribe that non-statutory exit payments are accounted for within the cap before any pension strain cost, and remove any member choice in regard the application of partial benefit reductions. Offering multiple options of benefit reduction from tranches of membership will lead to member confusion, payment delays and will have an adverse impact on the already stretched resources of Pension Funds.

Finally, we recognise that there is a requirement to amend the LGPS regulations in order to implement the exit cap, from an operational perspective, it is imperative that there is a reasonable lead in time for the regulatory changes to be drafted, consulted on and enacted along with ample opportunity for the actuaries and system providers to respond accordingly to technical matters.

Yours faithfully

Yvonne Murphy
Head of Pensions Administration
Merseyside Pension Fund

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MERCER
MAKE TOMORROW, TODAY

EXIT PAYMENT CAP

WHAT ARE EXIT PAYMENTS AND WHY ARE THE GOVERNMENT INTRODUCING THE CAP?

Exit payments are settlements that are paid to employees when they leave an employer. They normally take the form of a lump sum cash payment, or payments in the forms of shares / share options, but for employers participating the LGPS a particular feature is the availability of an unreduced pension on early retirement (i.e. waiving any early retirement reductions that would normally apply).

The cost of exit payments to employers can vary significantly and can be very substantial. The Government has highlighted that employees leaving the public sector workforce in 2016/17 cost the taxpayer £1.2 billion, with payments at and above £100,000 amounting to £0.2 billion.

In response to its concerns over the increasing cost to the taxpayer of financing early retirement packages, the Government first launched a consultation in 2015 about limiting the value of exit payments to a total of £95,000 per employee. It then laid the primary legislation to enable such a cap to be introduced in the public sector via the Small Business Enterprise and Employment Act 2015, which was subsequently amended by the Enterprise Act 2016. This latter Act included some technical details for how the cap should allow for the availability of an unreduced early retirement pension. However, none of these enabling provisions have yet been brought into effect so it is possible they could be amended before the new provisions come into full force.

The Government has therefore issued a further consultation on 10 April 2019 on the introduction of the £95,000 cap. This latest consultation essentially confirms the Government's overall intentions whilst addressing some of the details which need to be resolved prior to implementation.

Under the LGPS regulations members aged 55 and over are entitled to an immediate and unreduced payment of accrued pension where their employment ends on the grounds of redundancy or efficiency. Currently, the employer normally has to pay a "strain cost" to the LGPS in order to "buy out" the reduction in pension benefits which the member would normally face on retiring early, and this strain cost on its own can easily exceed £95,000. Introducing the cap on exit payments would therefore involve some conflict with the LGPS Regulations.

Under the Government's proposals public sector employees would still be able to take early retirement but the extent to which they could take an unreduced early retirement pension would be limited so that the cost of any pension enhancement would be no more than £95,000 less any amounts (cash or other forms of compensation) paid direct to the employee.

WHAT IS INCLUDED WITHIN THE RECENT CONSULTATION?

The key points within the 10 April 2019 consultation are as follows:

- There is no change from the earlier proposal that the maximum exit payment will be £95,000.
- The cap will apply to a wide range of public sector employers, including employees of councils in England and Wales, fire authorities, police forces, academies and maintained schools. There are some limited categories of public servants in Wales which are exempt.
- As discussed, the £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will therefore be severely restricted in some cases.
- Certain employers in the LGPS (e.g. Universities and Colleges) appear not to be covered which will mean that members would be treated differently within the LGPS depending on their employer on exit.
- There will be provisions for the cap to be waived in some circumstances. However, the tone of the consultation makes clear that any waiver is expected to be the exception rather than the norm, and that there is a “high bar” for them to be justified (e.g. subject to ratification by the full council in relation to a local authority).

Clearly there will be some details to be ironed out in relation to the LGPS in England and Wales. We expect the MHCLG will run a separate consultation, and which will cover amongst other things the agreement and implementation of an appropriate costing methodology and factors for strain payments for paying pension early.

In any case, at this stage we cannot be sure what the final form of any provisions will be. For example, we understand that there is a proposal from some quarters that for members affected by the cap the focus should move away from the pension being enhanced, and instead the *employee is given the choice of taking the £95,000 in cash or of using part or all of it to buy-back additional pension within the LGPS*.

IMPACT ON ADMINISTERING AUTHORITIES

The consultation introduces some actions / complications for Funds. In particular, in our view:

- There will need to be a clear and consistent LGPS-wide methodology and set of factors for calculating the “early retirement strain cost”. Otherwise public sector employees could end up with markedly different forms of exit packages, albeit still with an overall value of £95,000, simply by virtue of the administrative practice of their particular fund or employer.
- Funds will need to set a clear policy on how the cap on exit payments works in practice. There will need to be a process in place for an employer to be advised as quickly as possible of the potential “early retirement strain cost” in any particular case. Inevitably until the employee’s exit is finalised this will involve working on estimated figures. The employer will then need to confirm to the Fund whether the exit cap needs to be applied in the particular case, and how much by way of residual compensation is available for increasing the member’s pension and this will need to be paid into the Fund as a contribution by the employer or employee. There will then need to be a clear methodology for converting this amount back into pension benefits. The entire process could therefore become very intricate, especially in cases where it is borderline whether the cap will be breached.

- Separate administrative processes will need to observed by the Fund for those employers covered by the cap, and for those not covered by it. The Fund will need to establish and keep a clear record of which employers fall into each category.
- There will be increased administration costs in dealing with such a process and performing the necessary calculations to ensure the cap is not breached. Clearly, the simpler the process can be made, the better.
- Funds will need to consider their communication with employees, and ensure that any right to an unreduced early retirement pension is appropriately qualified.

IMPLICATIONS AND CONSIDERATIONS FOR EMPLOYERS

- The new Regulations will reduce pension costs for affected employers given that the total exit payments made to employees will now be capped.
- These employers will need to have their own procedures on how to exchange information with the Fund in a timely way and communicate appropriately with the affected employees.
- Employers will need to consider whether they will ever consider seeking to waive the exit cap, the circumstances in which they would do so and the procedures which they would need to go through if they did. Consistency from one case to another will be one of the keys to avoiding employment relationship complications.
- There may be pressure over the next few months from some employees to seek exit packages in advance of the new Regulations coming in. This could cause workforce planning issues and unplanned costs for employers in the very short term. It is also possible that employees would press for alternative access to an unreduced pension via ill health so these processes need to be robust in these circumstances.
- The introduction of the cap may cause relationship problems with staff, particularly if they have seen staff exit with large payments in the past. As an example, for a 55 year old with an accrued pension of c.£13,000 per annum the early retirement strain cost could easily be around £100,000 in isolation. If we assume a non-pension redundancy payment of c£20,000, this leaves a balance of £75,000 that can be used for providing the pension enhancement, so only about 75% of the member's pension would be enhanced and the remainder subject to an actuarial reduction. In practice, typically LGPS pensions are much less than this and so the change will only impact a subset of members, but the HR implications of having to deal with a few high-profile cases could be disproportionate.
- Voluntary redundancy exercises would potentially be affected e.g. the higher paid or longer serving employees are most affected by the cap and may not wish to take the option given pension is reduced. This may therefore affect planned workforce reforms and longer term business objectives for the employers.

We would be happy to discuss the above further with the Fund officers, Committee and Board.

Mercer Limited
June 2019

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**REVIEW OF SCHEME PAYS POLICY**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report reviews Merseyside Pension Fund's current policy decision, which was recommended to the Pensions Committee at its meeting on 22 January 2018 (minute 58 refers), to not operate "Voluntary Scheme Pays" for scheme members who breach HMRC's Annual Allowance limit for pension saving growth.

1.2 Following a challenge to that recommendation and a survey of other LGPS Funds in regard to their approach to Scheme Pays, it is now recommended that the decision is revised to allow scheme members the opportunity to elect for the Fund to pay their tax charge under 'Voluntary Scheme Pays' in respect of their pension growth from tax year 2018/19.

2.0 BACKGROUND AND KEY ISSUES

2.1 Members have previously been informed that HM Revenue and Customs impose limits on the amount of pension savings members of the LGPS can make without having to pay additional tax. One of these limits is known as the Annual Allowance (AA) which is currently set at £40,000.

2.2 From tax year 2016/17, the AA was reduced for members with an income in excess of £150,000 per annum, known as the 'tapered annual allowance'. This can have the effect of potentially reducing a member's standard AA from £40,000 to £10,000.

2.3 Members are most likely to exceed the Standard or Tapered AA limits if they receive high levels of income, obtain a significant pay rise, or pay sizeable additional voluntary contributions.

2.4 In the interest of brevity, a detailed explanation of the AA limits together with the associated impact on pension growth and administrative processes can be accessed from previous committee papers found here:

22 January 2018
http://s03vs-intrcm.core.wcent.wirral.gov.uk/documents/s50047085/Report.pdf

20 November 2012
http://s03vs-intrcm.core.wcent.wirral.gov.uk/documents/s50007816/Report.pdf

MANDATORY SCHEME PAYS

2.5 Where a member's pension growth exceeds the standard AA resulting in a tax charge greater than £2,000 and the relevant deadline for making an election has been met, the member has a mandatory right under Section 237B of the Finance Act 2004 to ask the fund to pay the tax charge.

This is known as Mandatory Scheme Pays and requires the Pension Fund to pay the tax charge and to then reduce future benefits in accordance with guidance issued by the Secretary of State.

VOLUNTARY SCHEME PAYS

2.6 In circumstances where the mandatory conditions are not met, the administering authority has a general power of competence under the Localism Act 2011 to extend the scheme pays facility; specifically where the tax charge stems from the tapered AA or where the statutory deadline for making an election is missed. This is known as voluntary scheme pays.

SYNOPSIS OF RECOMMENDATION FOR APPROVAL BY PENSIONS COMMITTEE ON 22 JANUARY 2018 (MINUTE 58)

2.7 The recommendation to only offer Mandatory Scheme pays was made on the basis that the operation of voluntary scheme pays is a non-statutory requirement utilising considerable senior officer resource with the financial risk of the Fund not recovering the full cost of the tax charge from the member's pension benefits.

REVIEW OF POLICY POSITION

2.8 The policy decision not to operate voluntary scheme pays has been questioned by some major employers as having implications for their recruitment and retention of staff. Members will be aware, for example, of issues in the NHS and the reported early retirement of GPs and consultants as a consequence of the tapered annual allowance.

2.9 These employers are aware that other LGPS Funds permit the use of Voluntary Scheme Pays and have asked for the Fund's current policy to be reviewed.

2.10 This is on the basis that members who are subject to a tapered AA will be required to pay a maximum annual tax bill of £13,500 out of post-tax income. Furthermore, a member paying the charge from income will not have a Scheme Pays debit applied to their pension benefits. This means at retirement the test against the Lifetime Allowance will increase the likelihood of the member facing further tax charges.

2.11 It is usual that members impacted by the tapered AA are faced with recurring annual tax charges, and it has been highlighted that these members could experience financial difficulty in paying the tax charge direct to HMRC.

2.12 Consequently, these members are considering opting out of the LGPS. As it is rarely in anyone's long-term interest to leave the LGPS, it is anticipated that the change in position to offer voluntary scheme pays will reduce the number of members considering this course of action.

2.13 A survey of LGPS Funds indicate that MPF is an outlier in not offering Voluntary Scheme Pays.

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

3.0 RELEVANT RISKS

3.1 As Scheme Members can apply on multiple occasions to invoke scheme pays, it may be many years before the tax paid to HMRC is fully recovered and if the member dies before the pension starts no recovery will occur.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 The administrative process will need to be amended due to the extension of the policy to allow voluntary scheme pays. There will be an increase in the number of Pension Saving Statements produced to inform members who may be subject to the tapered annual allowance of their pension growth. This is in addition to the statutory requirement to issue a statement where growth exceeds the standard AA.

8.2 The tapered Annual Allowance makes calculations and considerations of the tax position complex and multifaceted. To complete the process there will need to be multiple engagements with the member and their appointed personal tax adviser. The nature of this work requires the expertise of senior Fund officers but it should be noted that Fund Officers are not qualified or authorised to provide tax calculations or advice.

8.3 The increased activity in this area for senior officers will require a review of staff resources and an assessment of the impact on other Fund administration activities.

9.0 LEGAL IMPLICATIONS

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

10.0 EQUALITIES IMPLICATIONS

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

No equality impact assessment is required

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 Pensions Committee is asked to approve the use of Voluntary Scheme Pays in the following circumstances:

a) Where a member's pension savings are subject to the tapered annual allowance in relation to pension growth with Merseyside Pension Fund and the tax charge is in excess of £2,000.

b) Where a member, as a result of administrative difficulties beyond their control, misses the 'mandatory Scheme pays' deadline (e.g. where the member was not provided with the necessary information on time).

c) Any other cases where it can be demonstrated that exceptional circumstances apply, that approval is delegated to the Head of Pension Administration.

14.0 REASON/S FOR RECOMMENDATION/S

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

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with a further update on the progress made in the development of internally managed factor-based investment strategies.

2.0 BACKGROUND AND KEY ISSUES

2.1 In January 2018, Committee gave approval for the Director of Pensions to continue the development and implementation of an internally managed factor portfolio consistent with the philosophy outlined in the report to Committee.

2.2 I am pleased to inform Committee that a global multifactor portfolio was funded in March this year with an initial investment of around £200m. This followed extensive back-testing and verification by the investment team in conjunction with FTSE Russell who provided assurance around the multifactor process we have adopted. Considerable modification to internal operational processes and procedures was also required and these have been reviewed by internal audit and a satisfactory audit opinion received. The Fund's Compliance Manual is being updated with these changes and will be brought to a future meeting of this Committee.

2.3 Assets were transitioned from the UK Optimised Interim Portfolio to fund the factor portfolio. MJ Hudson provided an independent assessment of the transition arrangements.

A pre-trade analysis estimated the cost of implementing these changes to be 0.47% of the fund value. The annualised hedged tracking error between the legacy and target portfolios of 2.95% gave rise to a range of +/- 0.27% around this central cost estimate. The final transition shortfall result of 0.12% is below the central cost estimate and below the one standard deviation opportunity cost range. This was mainly driven by the effectiveness of the hedging strategy and the transition manager's ability to trade the more illiquid names.

2.4 The appendix attached provides an overview of the factor portfolio's philosophy and process which is intended to be complementary to the existing mix of internal and external portfolios.

2.5 In view of the successful initiation of this portfolio, we are continuing to work on further opportunities to deploy systematic strategies and increase the proportion of internally managed assets, consistent with our pooling objectives.

3.0 RELEVANT RISKS

3.1 The Fund diversifies its equity mandates with regard to mandate size and style. The first explicitly factor driven portfolio was implemented through an external investment mandate in 2009. It is important that any changes to mandate style and structure have due regard to both investment and operational risks.

4.0 OTHER OPTIONS CONSIDERED

4.1 The option of engaging external investment managers has been considered.

5.0 CONSULTATION

5.1 N/A.

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 portfolio has been implemented within the projected cost structure and is on track to deliver the cost savings anticipated.

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 the progress made in increasing the proportion of internally managed assets.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 This portfolio change is consistent with the government's pooling criteria to reduce costs whilst maintaining investment performance.

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APPENDICES

Report on systematic investing.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**January 2018**
Pensions Committee	**September 2017**

APPENDIX

Factors are sources of systematic risk which empirical evidence suggests generate a return premium for those market participants willing to assume such risk.

It is the objective of Merseyside Pension Fund to deliver superior long-term risk-adjusted returns relative to the appropriate market capitalisation-weighted index through the design and implementation of a global developed market equity multifactor portfolio.

Merseyside Pension Fund is employing a proprietary, rules-based methodology to construct a portfolio whose exposure to five factors is equally-sized; whilst simultaneously satisfying constraints pertaining to capacity and diversification. Adhering to capacity constraints means one can effectively implement/trade the strategy in the global equity markets; whilst diversification constraints limit our exposure to idiosyncratic risk (i.e. a source of risk whose exposure to we are not necessarily rewarded).

Each factor to which the portfolio is exposed is supported by a body of academic research; with strong theoretical explanations as to why exposure has historically provided excess return to those willing to assume such risks. These factors, together with their associated observations and means of capture, are as follows:

Factor	Observation	Implementation
Low volatility	Low volatility stocks outperform high volatility stocks	Taking market capitalisation index weights as the starting point, tilt towards low volatility stocks and away from high volatility stocks
Value	Cheap stocks outperform expensive stocks	Taking market capitalisation index weights as the starting point, tilt towards cheap stocks and away from expensive stocks
Momentum	High momentum stocks outperform low momentum stocks	Taking market capitalisation index weights as the starting point, tilt towards high momentum stocks and away from low momentum stocks
Quality	High quality stocks outperform low quality stocks	Taking market capitalisation index weights as the starting point, tilt towards high quality stocks and away from low quality stocks
Size	Small company stocks outperform large company stocks	Taking market capitalisation index weights as the starting point, tilt towards small company stocks and away from large company stocks

Merseyside Pension Fund's decision to target several factors in parallel (thus, adopting the so-called 'multifactor approach') as opposed to any one factor in isolation (i.e. 'single factor approach') is shaped by a significant body of empirical evidence which suggests that a portfolio whose exposure is to any single factor; whilst statistically-likely to outperform its associated cap-weighted benchmark over the long-term; is prone to performance cyclicality; outperforming in either pro or countercyclical economic environments. Thus, the act of combining exposure to multiple factors

whose long-term return series are lowly-correlated should, mathematically, serve to improve the level of risk-adjusted return the portfolio delivers.

Merseyside Pension Fund's chosen methodology for combining exposure to multiple factors within a single portfolio is, again, shaped by the empirical evidence, which suggests that an integrated ('bottom-up') approach is superior is a composite ('top-down') one; the reason being that, independent of the starting universe, the former constructs a portfolio whose factor exposure per unit of diversification is superior.

To manage the issue of factor drift, whereby the level of factor exposure the portfolio has decays as a function of time, Merseyside Pension Fund will rebalance on a semi-annual basis. Again, this decision is supported by empirical evidence which suggests that a semi-annual rebalance periodicity strikes the right balance between revenue (i.e. factor return) and cost (i.e. trading cost, amongst other things).

Merseyside Pension Fund has committed c. £200mn to this portfolio; the source of these funds being the UK Optimised Interim Portfolio.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report informs members of the name change of an existing authorised signatory.

1.2 This report describes the different requirements for various institutions and functions, including the banks, custodian, and overseas pensions payment agent, as well as the granting of power of attorney where appropriate.

1.3 This report also forms a part of the Fund's scheme of delegation and sets out the management and authorisation arrangements, for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction.

2.0 BACKGROUND AND KEY ISSUES

2.1 The current approved signatories are:

Director for Corporate Resources & Reform	Paul Satoor
Director of Finance and Investment	Shaer Halewood
Head of Pensions Administration	Yvonne M. Caddock
Senior Manager Operations & Information Governance	Guy W. Hayton
Head of Finance & Risk	Donna Smith
Employer Compliance & Membership Manager	Susan J. Roberts

2.2 As officers leave employment of Wirral Council, they are removed from the signatory list and accounts are deleted from any electronic systems immediately.

2.3 One signatory has changed her name and therefore the signatories are now as follows:

Director for Corporate Resources & Reform	Paul Satoor
Director of Finance and Investment	Shaer Halewood
Head of Pensions Administration	Yvonne M. Murphy
Senior Manager Operations & Information Governance	Guy W. Hayton

Head of Finance & Risk	Donna Smith
Employer Compliance & Membership Manager	Susan J. Roberts

2.4 These responsibilities will include powers to open, close and amend bank accounts; authorise instructions for payment of benefits and for investment transactions; sign manual cheques and countersign cheques over £10,000 in respect of accounts with the Fund's bankers (Lloyds Banking Group), with the Global Custodian (Northern Trust), and with other financial institutions including those detailed in the Fund's Treasury Management Strategy. The officers will also be authorised to sign investment documentation.

2.5 For reasons of internal control, the following officers are empowered to authorise investment decisions and relevant investment documentation including confirming settlement arrangements, but without powers to authorise the transfer of monies through the electronic banking/Custodian system:

Director of Pensions	Peter J. Wallach
Senior Portfolio Manager	Linda Desforges
Senior Investment Manager	Allister Goulding
Senior Investment Manager	Gregory Campbell

2.6 Other officers can make investment decisions up to their limits as specified in the Compliance Manual approved by Pensions Committee, 21 March 2017.

2.7 Authorisation of the monthly pension payroll is undertaken by approved authorised signatories based at MPF.

2.8 For the avoidance of doubt, the Director for Corporate Resources & Reform can designate officers of MPF to exercise powers of attorney on behalf of MPF and Wirral Council. Any two of the following officers of MPF may exercise powers of attorney on behalf of MPF and Wirral Council:

Director of Pensions	Peter J. Wallach
Senior Portfolio Manager	Linda Desforges
Head of Pensions Administration	Yvonne M. Murphy
Head of Finance & Risk	Donna Smith

3.0 RELEVANT RISKS

3.1 It is essential that the Fund maintains strong internal controls and that arrangements which designate those individuals who may authorise transactions are clearly documented. Without the appropriate number of authorising officers, there is a risk of delayed transactions and settlement of trades. This could manifest itself both as financial risk, as there could be a cost due to delayed transactions and settlements, and as a reputational risk to MPF in financial markets.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the name change of previously approved authorised signatories for Merseyside Pensions Fund.

13.2 That Members continue to approve the officers designated in section 2 of this report as authorised signatories for Merseyside Pensions Fund.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Following the name change of an authorised signatory, it is necessary to update the list of authorised signatories.

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APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

None

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	22 January 2018
Pensions Committee	15 November 2016

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2018/19**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report presents a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2018/19 financial year and reports any circumstances of non-compliance with the treasury management strategy and treasury management practices. It has been prepared in accordance with the revised CIPFA Treasury Management Code.

2.0 BACKGROUND AND KEY ISSUES

2.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Fund's investments and cash flows, its banking, money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

2.2 On 22 January 2018 Pensions Committee approved the Treasury Management Policy and Strategy 2018/19.

2.3 This report relates to money managed in-house during the period. It excludes cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

TREASURY MANAGEMENT

2.4 As at 31 March 2019, MPF had a cash balance of £86.1 million as against £53.2 million at 31 March 2018. All of these funds were held on call (instant access) accounts with Lloyds, Svenska Handelsbanken, Northern Trust and Invesco.

2.5 Managing counterparty risk continued to be the overarching investment priority. Investments during the year included:

- Call (instant access) accounts and deposits with UK banks
- Investments in AAA rated money market funds with a constant Net Asset Value.

2.6 The rate at which MPF can invest money continues to be low; the Bank of England base rate was increased from 0.50% to 0.75% in August 2018.

2.7 Over the twelve month period, Northern Trust calculated the cash performance to be 0.55% against a benchmark performance (7 day LIBID) of 0.51%.

2.8 Transactions were undertaken to reflect the day-to-day cash flows of the Fund, matching inflows from receipts to predicted outflows.

2.9 The detailed cash flow plans were managed so as to be compliant with the deposit limits agreed for individual financial institutions as reflected in the Treasury Management Policy for 2018/19, apart from the limit with our current bankers Lloyds detailed within section 2.10 below.

2.10 The Fund was compliant with the Treasury Management Policy throughout 2018/19. However, the Treasury Team did seek permission in accordance with the policy to breach the deposit limit overnight with the Funds current bankers, Lloyds. Permission was sought, as the Fund was expecting significant Funds for an onward investment, with timings of the receipt and dealing cut off times as a constraint, the risk was managed by temporally exceeding the limit overnight.

3.0 RELEVANT RISKS

3.1 All relevant risks have been discussed within section 2 of this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 There are no other options considered in this report

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no outstanding previously approved actions

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising out of this report.

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

8.1 The financial implications are stated above.

9.0 LEGAL IMPLICATIONS

9.1 The legal implications have been discussed within section 2 of this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION IMPLICATIONS

11.1 There are none arising out of this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising out of this report.

13.0 RECOMMENDATION/S

13.1 That the Treasury Management Annual Report for 2018/19 be agreed.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum, to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate that they have properly fulfilled their responsibilities and enable those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid-year is met via regular reports to the Investment Monitoring Working Party (IMWP).

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APPENDICES

None.

REFERENCE MATERIAL

Treasury Management Policy and Strategy 2018/19
Code of Practice for Treasury Management in Public Services – CIPFA

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**25 January 2016**
Pensions Committee	**20 June 2016**
Pensions Committee	**23 January 2017**
Pensions Committee	**17 July 2017**
Pensions Committee	**22 January 2018**
Pensions Committee	**16 July 2018**
Pensions Committee	**21 January 2019**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with a progress report on the implementation of governance arrangements in relation to Merseyside Pension Fund's participation in the Northern LGPS pool (NLGPS).

1.2 A copy of the Operating Agreement for the Northern LGPS, which was taken to Council on 15 July for approval, is attached at Appendix A. The Operating Agreement was the subject of a report to Pensions Committee on 29 October 2018.

2.0 BACKGROUND AND KEY ISSUES

2.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (LGPS) (the Scheme) administering authorities to ensure that they pooled investments to significantly reduce costs while maintaining overall investment performance. The Government subsequently issued the following criteria which set out how administering authorities could deliver against the Government's expectations of pooling assets. This report addresses the second of those criteria - **Strong governance and decision making.**

Pooling has been a standing item on the Pensions Committee agenda since that time.

Pooling Criteria

I. **Asset pool(s) that achieve the benefits of scale**: The 89 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements

are expected to deliver and explain how those benefits will be realised, measured and reported.

II. **Strong governance and decision making:** The proposed governance structure for the pools should:

   I. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
   II. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

III. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial

savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

IV. **An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

2.2 Pooling of investments has resulted in some fundamental changes to the oversight and management of LGPS assets. Importantly, administering authorities retain responsibility for most aspects of pensions including matters such as: investment strategy, pension liabilities, asset allocation and responsible investment policy. However, manager selection has been explicitly made a Pool decision. Practically speaking, this makes little difference to current arrangements at MPF where fund officers have significant involvement in the management of the fund's assets including the selection of managers. Officers will continue to manage this area but collaboratively with officers of the pool partner funds.

2.3 In response to the Government's pooling requirements, eight pension pools have been established across England & Wales encapsulating the 88 local government pension funds - and a range of pooling structures have been put in place. Merseyside Pension Fund has formed the Northern LGPS pool with two other local government pension funds; Greater Manchester and West Yorkshire Pension Funds, all large, cost effective Metropolitan funds. The individual funds will retain their current role of setting asset allocation and investment policy, and will delegate the implementation of that policy to the Northern LGPS.

2.4 A Joint Governance Committee will be formed which will have responsibility for ensuring the appropriate structure and resources are in place to implement the policy required by each fund, those resources to be provided by the three Funds. The principal activities of the Joint Governance Committee are set out in Schedule 2 of the appendix.

2.5 The Joint Governance Committee will consist of two Members appointed by each Fund plus a total of three trade union representatives and will not have any direct involvement in the appointment of managers or selection of investments. As required in the Guidance, these matters will be fully delegated to professional officers.

2.6 The long-term vision for the pool is to provide access to:

- a range of internal and externally managed listed assets at low cost
- collective investment in alternatives, while building skill to enable cost reduction by increasing direct access
- working arrangements with other pools where greater size may add value.

2.7 The investment philosophy is to maintain simple arrangements, with a relatively low number of managers, low manager and portfolio turnover, an increasing proportion of assets managed internally within the pool, with individual funds retaining the ability to select asset class, territory, and active or passive management.

2.8 A meeting was held in March 2018 with the advisors to all three funds and the NLGPS shadow Joint Governance Committee to consider options for developing the pool. The unanimously supported conclusion was to design a simple, low cost pool that will continue delivering the performance the funds expect.

2.9 The Northern LGPS Operating Agreement is attached to this report as Appendix A, and sets out how the Northern LGPS will operate, with the three partners having equal voting rights, being responsible for costs on an equal basis (except investment management costs which will be attributed in proportion to the assets being managed). The Agreement also appoints Tameside Borough Council (the administering authority for Greater Manchester Pension Fund) as the host council. The key items to note are those contained in the first three schedules to the agreement, which determine the:-

- Matters reserved to the Pooling Partners
- Joint Governance Committee Terms of Reference
- Joint Governance Committee Procedure

2.10 An earlier iteration of this Operating Agreement has been approved at Council meetings of both the partner funds' administering authorities.

2.11 Since approval by Bradford Council and Tameside Council, the Ministry of Housing, Communities and Local Government has issued further Pooling Guidance. This was the subject of an informal consultation which closed in March 2019. The Pool's response to this consultation is available at: https://northernlgps.org/assets/pdf/2019-03-19_statguidanceresponse.pdf
There has been no formal response to the consultation. The Minister has announced, subsequently, that the Guidance will be reissued for a formal consultation. However, the timetable for this to happen is unclear and it is important that an oversight body is formally constituted by NLGPS in order to comply with the extant 2015 guidance.

2.12 The recently issued draft Pooling guidance contained a number of changes, setting 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 taking account of the current state of progress on pooling. If the Guidance was to be issued as drafted, the most significant implication for the Northern LGPS 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'. Was this to be the case, the governance arrangements proposed for approval would remain essentially intact although the Joint Committee's oversight would be in relation to the pool company rather than the Officer Working Group - as detailed in Schedule 4.

2.13 Following agreement by Pensions Committee on 29 October 2018, the Director of Pensions and the Borough Solicitor have been reviewing the Operating Agreement and liaising with pool partners and advisors with a view to ensuring a mutually acceptable agreement that provides Wirral, as administering authority, with the ability to discharge its responsibilities.

2.14 The pooling reports have also been extensively reviewed by the Local Pension Board which has commended the approach adopted by the Northern LGPS.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

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

9.0 LEGAL IMPLICATIONS

9.1 There is a requirement to establish a Joint Governance Committee with Tameside and Bradford Councils in order to oversee the implementation of the pooling arrangements by the officers of the 3 Councils;

9.2 The Committee will need to re-consider the pooling arrangements in the light of future guidance from MHCLG;

9.3 The details of the Operating Agreement have yet to be finalised with Tameside and Bradford Councils but no major differences have been identified.

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

Subject to the decision of the full Council at its meeting on 15/7/19, it is recommended that;

13.1 The Committee approves and commends to the Full Council the proposed principles of governance contained in the draft Operating Agreement and delegates to the Director of Pensions and the Director: Governance and Assurance the authority to negotiate and agree with Tameside and Bradford Councils the final draft of the Operating Agreement in consultation with the Chair.

13.2 That Members note the in principle approval of the Operating Agreement by Council and consider whether any amendments are required before it is formally adopted in the Constitution.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Guidance issued by MHCLG requires that a Pool oversight body is established by administering authorities. Pooling will result in fundamental changes to oversight and management of LGPS assets.

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

APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

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Dated 2019

Northern LGPS Joint Governance Committee Agreement

between

Tameside Metropolitan Borough Council	(1)
City of Bradford Metropolitan Borough Council	(2)
Wirral Metropolitan Borough Council	(3)

CONTENTS

THIS Agreement is made on 2019

BY

(1) **TAMESIDE METROPOLITAN BOROUGH COUNCIL** of Guardsman Tony Downes House, 5 Manchester Road, Droylsden, Manchester M43 6SF (**"Tameside"**);

(2) **CITY OF BRADFORD METROPOLITAN BOROUGH COUNCIL** of Aldermanbury House, 4 Godwin street, Bradford, BD1 2ST (**"Bradford"**); and

(3) **WIRRAL METROPOLITAN BOROUGH COUNCIL** of Castle Chambers, 43 Castle Street, Liverpool L2 9SH (**"Wirral"**)

(together referred to as the "**Pooling Partners**" and individually as a "**Pooling Partner**")

BACKGROUND

(A) The Pooling Partners are all councils responsible for the administration of local government pensions within their areas as set out in the Local Government Act 1972 and the Superannuation Act 1972.

(B) The Pooling Partners are each required by Regulation 7(1) of the Investment Regulations to have formulated an investment strategy in accordance with Statutory Guidance issued by the Secretary of State for Housing, Communities and Local Government as issued from time to time.

(C) Regulation 7(2)(d) of the Investment Regulations requires in particular that each LGPS administering authority sets outs its *"approach to pooling investments, including the use of collective investment vehicles and shared services"* in its investment strategy statement.

(D) Having regard to their obligations under the Investment Regulations, the Pooling Partners have therefore agreed to establish and participate in a formal joint committee, known as the *"Northern LGPS Joint Governance Committee*", pursuant to section 101 and section 102 of the Local Government Act 1972. They have also collaborated in:

(i) the joint procurement of Northern Trust as the Pool Custodian;

(ii) the creation of Northern LGPS Private Equity Limited Partnership; and

(iii) investing alongside each other in GLIL Infrastructure LLP.

(E) The Pooling Partners intend that the terms of this Agreement shall govern the Northern LGPS Joint Governance Committee by creating arrangements for asset pooling and the sharing of services among the Pooling Partners in order to achieve improved net investment returns.

(F) The Agreement gives the Pooling Partners equal rights and status except whether otherwise stated.

(G) Neither the execution of this Agreement nor the carrying on of activities under it is intended by the Pooling Partners to constitute the carrying on of any "regulated activity" under section 19 of the Financial Services and Markets Act 2000 ("FSMA"). In particular, the Northern LGPS Joint Governance Committee shall not constitute the establishment or operation of a Collective Investment Scheme under s235 of FSMA.

AGREED TERMS

1 INTERPRETATION

1.1 The following definitions and rules of interpretation apply in this Agreement.

Business Day means a day other than a Saturday, a Sunday or a public holiday in England when banks in London are open for business.

Chief Executive means the person appointed by a Pooling Partner from time to time under section 4 of the Local Government and Housing Act 1989.

CIPFA Guidance means the guidance published in March 2019 by the Chartered Institute of Public Finance and Accountancy entitled "Preparing the Annual Report: Guidance for Local Government Pension Funds".

Commencement Date means [ ] 2019.

Financial Year means in the case of the first Financial Year, the period from the Commencement Date to (and including) the following 31 March. For subsequent Financial Years the period between 1 April and 31 March (inclusive) and for the last Financial Year any lesser period necessary.

Fund means the fund maintained by each Pooling Partner in respect of the LGPS.

Host Council means the Pooling Partner appointed in accordance with clause 6 and whose duties are described within that clause.

Investment Regulations means the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946).

Joint Governance Committee means the joint committee formed by this Agreement.

LGPS means the Local Government Pension Scheme established pursuant to regulations made by the Secretary of State in exercise of powers under section 7 and 12 of the Superannuation Act 1972 and the provisions of the PSPA 2013.

Member in this Agreement means a member of the Joint Governance Committee appointed in accordance with clause 3.3.

Monitoring Officer means the person designated by each Pooling Partner for the purposes of section 5 of the Local Government and Housing Act 1989.

Northern LGPS means the collaboration by the Pooling Partners in respect of their pooling of investments and use of collective investment vehicles and shared services, including, without limitation, those collaborations mentioned in Recital D to this Agreement.

Officer Working Group means the group of officers whose terms of reference are set out in Schedule 4.

Pension Board means a local pension board or a joint local pension board within the meaning given to each phrase by regulation 106 of the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and section 5 of the PSPA 2013.

Pooling Contribution means as defined in clause 7.1.

Pool Custodian means the FCA regulated entity appointed to act as 'master record keeper' for all assets of the LGPS funds administered by the Pooling Partners and to provide additional services to the Pooling Partners as set out in the relevant contracts.

Pooling Partners means the parties to this Agreement and any other administering authorities within the LGPS who become parties to this Agreement after the Commencement Date. Unless the context otherwise specifies references to an action or decision to be taken by a Pooling Partner shall be construed by reference to its pensions committee or equivalent body, and shall not refer to the Members of the Joint Governance Committee representing it under this Agreement.

PSPA 2013 means the Public Service Pensions Act 2013.

S151 officer means the person appointed by each Pooling Partner for the purposes of section 151 of the Local Government Act 1972.

Secretary of State means the Ministry of Housing, Communities and Local Government or such replacement department which has responsibility for the LGPS.

Shared Objectives has the meaning given by clause 4.

Statutory Guidance means the *"Local Government Pension Scheme: Investment Reform Criteria and Guidance"* ("**November 2015 Guidance**") and the *"Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement",* issued in September 2016 but as amended in July 2017 (**"July 2017**

Guidance"), both as amended from time to time**.**

Terms of Reference means the governing framework concerning the functions and operations of the Joint Governance Committee as set out in Schedule 3.

1.2 Clause, schedule and paragraph headings shall not affect the interpretation of this agreement.

1.3 A **person** includes a natural person, corporate or unincorporated body (whether or not having a separate legal personality).

1.4 The schedules form part of this agreement and shall have effect as if set out in full in the body of this agreement. Any reference to this agreement includes the schedules.

1.5 A reference to a **company** shall include any company, corporation or other body corporate, wherever and however incorporated or established.

1.6 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.

1.7 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.

1.8 A reference to a statute or statutory provision is a reference to it as amended, extended or re-enacted from time to time and includes any subordinate legislation made from time to time under it.

1.9 A reference to **writing** or **written** includes faxes and email.

1.10 Documents in **agreed form** are documents in the form agreed by the parties and initialed by them or on their behalf for identification.

1.11 References to clauses and schedules are to the clauses and schedules of this Agreement; references to paragraphs are to paragraphs of the relevant schedule.

1.12 Any words following the terms **include**, **including**, **in particular** or **for example** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding them.

1.13 Any obligation in this agreement on a person not to do something includes an obligation not to agree or allow that thing to be done.

1.14 Any reference to the title of an officer or any of the Pooling Partners shall include any person holding such office from time to time by the same or any title substituted thereafter or such other officer of the relevant Pooling Partner as that Pooling Partner may from time to time appoint to carry out the duties of the officer referred to.

2 COMMENCEMENT AND TERM

2.1 This Agreement shall commence on the Commencement Date and shall continue until the earlier of the following:

(a) all of the Pooling Partners agree in writing to its termination; or

(b) there is only one remaining Constituent Authority who has not exited this Agreement in accordance with clauses 19 or 20.

3 FORMATION OF THE JOINT GOVERNANCE COMMITTEE

3.1 The Pooling Partners by this Agreement hereby form the Joint Governance Committee pursuant to section 101(5) and 102(1) of the Local Government Act 1972 for the purposes of overseeing and reporting on the performance of the Northern LGPS. The Joint Governance Committee shall not be responsible for formulating or revising the investment strategy described by regulation 7 of the Investment Regulations in respect of each or any of the Pooling Partners.

3.2 Meetings of the Joint Governance Committee are subject to the provisions of the Local Government Act 1972 including the provisions on access to information and meetings held in public.

3.3 Unless agreed otherwise, the membership of the Joint Governance Committee shall be as set out in Schedule 3.

3.4 The Joint Governance Committee shall undertake its role and act in accordance with the Terms of Reference set out in Schedule 2 and shall seek and have regard to the advice of officers and any professional advisors appointed in carrying out its functions under this Agreement.

3.5 Every meeting shall be governed by the procedure and requirements set out in Schedule 3.

3.6 A programme of training will be provided to Members having regard to CIPFA Guidance and the training provided to Members in their roles on their respective Pooling Partner pension committees. Any failure to undertake the required training shall be a matter for consideration by the Joint Governance Committee.

4 SHARED OBJECTIVES

4.1 The Shared Objectives of the Joint Governance Committee are to:

(a) improve the risk-adjusted net investment returns of the Funds of the Pooling Partners;

(b) enhance stakeholder engagement activities;

(c) facilitate increased investment in UK infrastructure;

(d) assist the Pooling Partners in ensuring continued compliance with the Investment Regulations and Statutory Guidance.

4.2 The Shared Objectives will be reviewed by the Joint Governance Committee and the Pooling Partners annually. Where any revisions are agreed by the Joint Governance Committee the revised Shared Objectives shall be sent to all Pooling Partners for their approval.

5 HOST COUNCIL

5.1 The Pooling Partners have agreed, with effect from the Commencement Date, that Tameside will be the Host Council for the Northern LGPS acting on behalf of itself and the Pooling Partners and Tameside agrees to act in that capacity subject to the terms of this Agreement. For the avoidance of doubt, the role of Host Council, unless otherwise agreed by the Joint Governance Committee, includes:

(a) being the point of contact for the Northern LGPS;

(b) providing such administrative resources and facilities that may be necessary for the Northern LGPS, preparing an annual budget for the operation of the Joint Governance Committee, holding all Pooling Contributions and paying expenses and costs of the Joint Governance Committee (as agreed with the other Pooling Partners in advance of expenditure being incurred);

(c) providing such governance and administrative services that may be necessary for the purpose of supporting the Northern LGPS including arranging and clerking of meetings;

(d) providing training for Members to support their role on the Joint Governance Committee in line with the training programme and in accordance with clause 3.6;

(e) entering into contracts for supplies and services as required for the purposes of the Northern LGPS.

5.2 Save and except where otherwise required by law, all staff employed by the Host Council who are engaged in providing services under this Agreement shall be employed on the Host Council's relevant terms and conditions of employment and related staff policies including salary structures.

5.3 A replacement Host Council may be appointed by a majority decision of the Pooling Partners provided that the replacement Host Council agrees.

5.4 If the Host Council withdraws from the Northern LGPS pursuant to clause 16 (Voluntary Exit) or clause 17 (Compulsory Exit) then a replacement Host Council will be appointed by unanimous decision of the remaining Pooling Partners. The withdrawing Host Council will not have the right to vote in regard to any such appointment.

6 INDEMNITIES

6.1 The Host Council shall be indemnified by the other Pooling Partners from and against all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) arising from the performance of its functions authorised pursuant to clause 5, save in the case of its willful default or fraud but shall bear its proportionate share of all such liabilities as a Pooling Partner.

6.2 Any Pooling Partner who is in material breach of any of the provisions of this Agreement (having failed to remedy such breach after having received notice thereof) shall indemnify the other Pooling Partners from and against all liabilities, costs, expenses, damages and losses, (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) resulting from that breach, without prejudice to any other right or remedy of the other Pooling Partners howsoever arising.

7 COMMITMENT OF THE POOLING PARTNERS AND COSTS

7.1 Subject to clause 7.2, the Pooling Partners agree to pay an equal share of all costs ("**Pooling Contributions**") of services procured by the Host Council on behalf of the Joint Governance Committee in relation to the governance, procurement and administration requirements of the Northern LGPS.

7.2 Unless otherwise agreed, the Pooling Partners shall meet the costs of ad hoc projects to which they are a party rateably, so that if a Pooling Partner is not a party to a project it shall bear none of the costs incurred.

7.3 The Pooling Partners agree to pay the Pooling Contributions to the Host Council on such dates, and at such frequency, as is agreed or otherwise annually as demanded.

7.4 Any charges incurred in respect of investment management (whether internal or external), investment advice or custodian services provided to the Pooling Partners individually shall be attributed to each Pooling Partner by reference to the assets under management of that Pooling Partner or such other contractual arrangement in place

between the Pooling Partner and the relevant third party.

8 ACCOUNTS

8.1 The Host Council shall keep proper books of account and shall be responsible for ensuring that full and proper entries of all receipts and payments are promptly recorded in them. The books of account shall be kept at the premises of the Host Council and be made available for inspection by all of the Pooling Partners (who may also take copies). The Host Council shall make available on reasonable request such information as is required by any Pooling Partner to prepare its own accounts or respond to any internal or external audit.

9 INTELLECTUAL PROPERTY

9.1 The Pooling Parties agree that any intellectual property developed by any Pooling Partner for the purposes of the Northern LGPS shall be the collective property of the Pooling Partners.

10 REPORTS

10.1 As periodically requested by the Joint Governance Committee, the Host Council shall procure that the Pool Custodian will provide to the Joint Governance Committee consolidated reports of the assets of the Funds administered by the Pooling Partners.

10.2 To ensure that the Pooling Partners are kept up-to-date with the performance of the Northern LGPS, the Joint Governance Committee shall provide all reports and minutes of its meetings to the Pooling Partners' pensions committees or equivalent.

11 INSURANCE

11.1 Where the operation of the Northern LGPS is not covered by any existing insurance of the Pooling Partners and the Joint Governance Committee so requests, the Host Council shall effect and at all times keep in force (for the benefit of the Members of the Joint Governance Committee) such policies of insurance for such amounts as it shall decide. Such policies shall be maintained at the expense of the Pooling Partners and shall be an administration cost of the Northern LGPS for the purposes of clause 7.1.

12 DUTIES AND POWERS

12.1 Each Pooling Partner shall at all times:

(a) use its reasonable skills and endeavours to promote the Northern LGPS for the benefit of the Pooling Partners, and conduct itself in a proper and responsible manner;

(b) devote such time and attention as the Pooling Partners may decide in writing to be necessary and appropriate to the Northern LGPS;

(c) comply with all legislation, regulations, professional standards and other provisions as may govern the conduct of the Northern LGPS, or be determined by the Pooling Partners as standards to be voluntarily applied to the Northern LGPS;

(d) show the utmost good faith to the other Pooling Partners in all transactions relating to the Northern LGPS and give them a true account of, and full information about, all things affecting the Northern LGPS;

(e) inform the other Pooling Partners without delay on becoming party to any legal proceedings in connection with the Northern LGPS;

(f) not do or fail to do anything which shall bring any of the other Pooling Partners, or itself, into disrepute;

(g) obtain all necessary consents sufficient to carry on its duties to the Northern LGPS.

12.2 No action which would otherwise be a breach of this clause shall constitute a breach where the Pooling Partner was required to carry out that action in compliance with a statutory duty or order of any court, tribunal or ombudsman.

13 DELEGATION

13.1 Each Pooling Partner hereby confirms that, prior to the commencement of the Northern LGPS it has put in place (and shall keep in place for the term of this Agreement) such authorisations as are required within its internal governance arrangements to:

(a) delegate the making of the decisions set out in this Agreement to the Joint Governance Committee; and

(b) delegate any other matter which is required to comply with the obligations of the Northern LGPS, including delegations to its own officers.

13.2 The Pooling Partners shall review and where necessary amend their delegations throughout the duration of the Northern LGPS to ensure that they can comply with the provisions of this Agreement.

13.3 The Host Council may appoint contractors or agents to undertake tasks, advise on or support the implementation of its functions on behalf of the Joint Governance Committee.

13.4 For the avoidance of doubt, strategic asset allocation will be set by each of the Pooling Partners, but the selection of individual investments and investment managers shall only

carried out by appropriately qualified and experienced officers employed by the Pooling Partners, operating under the legal framework of specialist investment vehicles where appropriate or as more fully set out in Schedule 4.

14 OBLIGATIONS ON POOLING PARTNERS

14.1 Without prejudice to the terms of this Agreement, each of the Pooling Partners commits to the implementation of the Northern LGPS within the appropriate legal framework and to use their reasonable endeavours to ensure the success of the Northern LGPS.

15 POLICIES AND PROCEDURES

15.1 The Host Council shall prepare any necessary policies and procedures which the Joint Governance Committee decides are appropriate, in accordance with applicable law and regulation, competent authority, and CIPFA Guidance, and having had regard to applicable guidance specific to local government management of funds or accounting and auditing requirements.

16 VOLUNTARY EXIT

16.1 Any Pooling Partner (the "**VE Authority**") may exit from the Northern LGPS by giving not less than 12 (twelve) months' written notice to the Host Council of its intention to exit the Northern LGPS and the date of expiry of that notice is the 31 March which next falls after or is coincident with the end of the 12 (twelve) month notice period provided that the Pooling Partners may agree with the VE Authority that a different notice period applies (the "**Exit Date**").

16.2 A VE Authority may exit the Northern LGPS and be released from its obligations under this Agreement (other than clause 18) provided that:

(a) it has satisfied all of its obligations up to the Exit Date;

(b) it has satisfied its share of the costs and expenses up to the Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Exit Date;

(c) it redeems or transitions (subject to liquidity constraints and meeting relevant contractual requirements) its investments from the investment arrangements put in place under the Northern LGPS as agreed appropriate by the Joint Governance Committee;

(d) its representatives on the Joint Governance Committee resign on or before the Exit Date.

16.3 With effect from the date of the notice given by the VE Authority pursuant to clause 16.1

the Members nominated by the VE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and the VE Authority shall cease to be a Pooling Partner.

16.4 For the avoidance of doubt, the VE Authority shall remain liable to make the Pooling Contributions that become due prior to the Exit Date.

17 COMPULSORY EXIT

17.1 The Pooling Partners (other than the CE Authority) may by majority decision compulsorily require any Pooling Partner (the "**CE Authority**") to leave the Northern LGPS, by the Host Council (or in the case of the Host Council being the CE Authority, any other Pooling Partner), giving the CE Authority written notice if the CE Authority:

(a) commits any serious breach or persistent breaches of this Agreement;

(b) fails to pay any money owing by it to the Host Council within 28 (twenty-eight) days of a written request for payment from the Host Council;

(c) fails to account for, or pay over or refund any money received and belonging to the Pooling Partners within 28 (twenty-eight) days after being so required by notice from the Host Council;

(d) wilfully neglects, refuses or omits to perform its duties, obligations and responsibilities under this Agreement; or

(e) is guilty of conduct which, in the reasonable opinion of the other Pooling Partners, is likely to have a serious adverse effect on the Northern LGPS;

provided that in each case the CE Authority is first given 28 days following receipt of the written notice to remedy the breach or issue described in paragraphs (a) to (e) and the CE Authority has failed to remedy such breach or issue or to take reasonable steps to do so.

17.2 The effective date of the CE Authority being required to leave the Northern LGPS is the 31 March which next falls after or is coincident with the period of 12 (twelve) months after the notice given in clause 17.1 above provided that the other Pooling Partners may notify the CE Authority that a different notice period applies (the "**Compulsory Exit Date**").

17.3 The CE Authority shall exit the Northern LGPS from the Compulsory Exit Date and must have, prior to the Compulsory Exit Date:

(a) satisfied all of its obligations up to the Compulsory Exit Date;

(b) satisfied its share of the costs and expenses up to the Compulsory Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not

incurred after the Compulsory Exit Date;

(c) redeemed or transitioned (subject to liquidity constraints and meeting relevant contractual requirements) its investments from the Northern LGPS investment arrangements as agreed to be appropriate by the Joint Governance Committee;

(d) ensured that its representatives on the Joint Governance Committee have resigned on or before the Compulsory Exit Date.

17.4 With effect from the date of the notice given by the Host Council to the CE Authority pursuant to clause 17.1 the Member (and any nominated deputy for the purposes of clause 3.4) nominated by the CE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and shall cease to be a Pooling Partner.

17.5 For the avoidance of doubt, the CE Authority shall remain liable to make the Pooling Contributions that become due prior to the Compulsory Exit Date and liable to the continuing liability provisions of clauses 6 and 18.1.

18 FURTHER PROVISIONS RELATING TO A VE AUTHORITY OR A CE AUTHORITY

Continuing liability

18.1 Where any Pooling Partner exits from this Agreement in accordance with clause 16 or 17 it shall remain liable to the extent it would have been were it still party to this Agreement for any acts, omissions, costs and expenses arising from acts taken or decisions made during the period in which that Pooling Partner was a party to this Agreement.

19 NEW POOLING PARTNER

19.1 The Pooling Partners shall consider applications from other administering authorities of funds within the LGPS to join the Northern LGPS (a "New Member Application").

19.2 A New Member Application will be considered on the merits of its business case and the conditions which the Pooling Partners consider appropriate from time to time.

19.3 A New Member Application will only be approved by the Pooling Partners at their absolute discretion and, subject to regulation 8 of the Investment Regulations, there shall be no obligation under the terms of this Agreement for a New Member Application to be accepted.

19.4 Any Pooling Partner who enters into this Agreement after the Commencement Date shall only have liability for any acts, omissions, costs and expenses arising from acts taken or decisions made from the date of its admission to the Northern LGPS.

19.5 If a New Member Application is approved, the parties shall entered into a deed of admission to the Northern LGPS in the form set out in Schedule 5.

20 CONFIDENTIALITY

20.1 For the purposes of this Agreement, **Confidential Information** means, any information which has been certified as exempt information in accordance with Section 100A(1) of the Local Government Act 1972 and all confidential information (however recorded or preserved) disclosed by a Pooling Partner or its representatives or advisers to another Pooling Partner and its representatives or advisers (except where by law the information cannot be retained as confidential) concerning:

(a) any information relating to the prospective business, technical processes, computer software or intellectual property rights of a Pooling Partner;

(b) all documents, papers and property that may have been made or prepared by, or at the request of, any Pooling Partner and which are marked as being exempt information or confidential and which come into any Pooling Partner's possession or under its control in the course of the Northern LGPS; and

(c) compilations of two or more items of such information and all information that has been, or may be, derived or obtained from any such information which, at any time, comes into any Pooling Partner's possession or under its control in the course of activities connected with the Northern LGPS and which the Joint Governance Committee regards or could reasonably be expected to regard as confidential, whether or not such information is, in itself, confidential, marked as "confidential" or reduced to tangible form.

20.2 Save as provided otherwise in this Agreement either expressly or by implication, each Pooling Partner undertakes that it shall not, at any time, disclose to any person any Confidential Information of the other Pooling Partners and shall use its reasonable endeavours to keep all Confidential Information of the other Pooling Partners confidential (whether it is marked as such or not) except as permitted by clause 20.3.

20.3 Each Pooling Partner may disclose the other Pooling Partner's Confidential Information in the following circumstances:

(a) to its representatives or advisers who need to know such information for the purposes of carrying out the Pooling Partner's obligations under or in connection with this Agreement. Each Pooling Partner shall ensure that its representatives or advisers to whom it discloses the other Pooling Partner's Confidential Information comply with this clause;

(b) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority including an ombudsman having the force of law;

(c) which Pooling Partner can demonstrate is already generally available and in the public domain otherwise than as a result of a breach of this clause; or

(d) any disclosure to enable a determination to be made under clause 31 (Dispute Resolution).

21 FREEDOM OF INFORMATION

21.1 Each Pooling Partner acknowledges that the other Pooling Partners and the Joint Governance Committee are subject to the requirements of the Freedom of Information Act 2000 ("**FoIA**") and each Pooling Partner shall where reasonable assist and co-operate with the other Pooling Partners (at their own expense) to enable the other Pooling Partners to comply with these information disclosure obligations.

21.2 Where a Pooling Partner receives a request for information under the FoIA in relation to information which it is holding on behalf of any of the other Pooling Partners in relation to the Northern LGPS, it shall:

(a) transfer the request for information to the other Pooling Partners as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;

(b) provide the other Pooling Partners with a copy of all information in its possession or power in the form that the other Pooling Partner(s) reasonably require(s) within 10 (ten) Business Days (or such longer period as the Pooling Partner(s) may specify) of the Pooling Partner(s) requesting that information; and

(c) provide all necessary assistance as reasonably requested by the other Pooling Partner(s) to enable the Pooling Partner to respond to a request for information within the time for compliance set out in the FoIA.

21.3 Where a Pooling Partner receives a request for information under the FoIA which relates to this Agreement or the Northern LGPS it shall:

(a) advise the person making the request that the information is held by another public authority (being the Joint Governance Committee) and that the request has been passed to that public authority to respond;

(b) transfer the request for information to the Host Council on behalf of the Joint Governance Committee as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;

(c) provide the Host Council with a copy of all information in its possession or power

in the form that the Host Council reasonably requires within 10 (ten) Business Days (or such longer period as the Host Council may specify) of the Pooling Partner being requested to provide that information; and

(d) provide all necessary assistance as reasonably requested by the Host Council to enable the Host Council to respond to a request for information on behalf of the Joint Governance Committee within the time for compliance set out in the FoIA.

21.4 The Pooling Partners or the Host Council shall be responsible for determining in their absolute discretion whether any information requested under the FoIA:

(a) is exempt from disclosure under the FoIA; or

(b) is to be disclosed in response to a request for information.

21.5 Each Pooling Partner acknowledges that the other Pooling Partners and the Joint Governance Committee may be obliged under the FoIA to disclose information:

(a) without consulting with the other Pooling Partners where it has not been practicable to achieve such consultation; or

(b) following consultation with the other Pooling Partners and having taken their views into account.

22 DATA PROTECTION

22.1 The Pooling Partners shall comply with the Data Protection Act 2018 and the General Data Protection Regulation (EU 2016/679) to the extent that such legislation applies to this Agreement.

23 DISSOLUTION

23.1 No Pooling Partner shall be capable of dissolving the Joint Governance Committee unilaterally by means of a notice.

23.2 The Northern LGPS and this Agreement shall be terminated upon the unanimous agreement of all of the Pooling Partners.

23.3 Each Pooling Partner shall act in good faith in the wind up of the Joint Governance Committee following the unanimous decision to dissolve it as soon as reasonably practicable thereafter, and all costs and expenses shall be borne equally by the Pooling Partners.

24 NO PARTNERSHIP

24.1 Nothing in this Agreement shall constitute the carrying on of a partnership between any of the Pooling Partners.

25 ENTIRE AGREEMENT

25.1 This Agreement constitutes the entire agreement between the parties and supersedes and extinguishes all previous agreements, promises, assurances, warranties, representations and understandings between them, whether written or oral, relating to its subject matter.

25.2 Each Pooling Partner acknowledges that, in entering into this Agreement it has not relied on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this agreement.

25.3 Each Pooling Partner agrees that it shall have no claim for innocent or negligent misrepresentation (or negligent misstatement) based on any statement in this agreement.

25.4 Nothing in this clause shall limit or exclude any liability for fraud.

26 NOTICES

26.1 Any notice, demand or communication in connection with this Agreement will be in writing and may be delivered by hand, post, facsimile or email addressed in writing in accordance with this clause at an address to which notices, invoices and other documents may be sent. The notice, demand or communication will be deemed to have been duly served:

(a) if delivered by hand during business hours, at the time of delivery;

(b) if delivered by post, 48 hours after being posted (excluding Saturdays, Sundays and public holidays);

(c) if delivered by facsimile during business hours, at the time of transmission, provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission; or

(d) if delivered by email or other electronic form of communication during business hours, at the time of transmission provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission.

26.2 Where notice is served by hand, facsimile or email outside business hours, it will be deemed to have been served on the next business day.

27 CONTRACTS (THIRD PARTY RIGHTS)

27.1 A person who is not a party to this Agreement may not enforce any of its terms, conditions or provisions and the Contracts (Rights of Third Parties) Act 1999 shall not apply to this Agreement.

28 SEVERANCE

28.1 If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this clause shall not affect the validity and enforceability of the rest of this Agreement.

28.2 If one Pooling Partner gives notice to the other Pooling Partners of the possibility that any provision or part-provision of this Agreement is invalid, illegal or unenforceable, the Pooling Partners shall negotiate in good faith to amend such provision so that, as amended, it is legal, valid and enforceable, and, to the greatest extent possible, achieves the intended result of the original provision.

29 AMENDMENTS

29.1 No amendment to this Agreement shall be binding unless it is in writing and signed by a duly authorised representative of each of the Pooling Partners and expressed to be for the purpose of such amendment.

30 GOVERNING LAW AND JURISDICTION

30.1 This agreement and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with it or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales.

30.2 Each party irrevocably agrees that the courts of England and Wales have exclusive jurisdiction to settle any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this agreement, its subject matter or formation.

31 ALTERNATIVE DISPUTE RESOLUTION

31.1 The Pooling Partners agree:

(a) to pursue a positive approach towards dispute resolution with an objective of reaching a consensus without formal dispute resolution and/or legal proceedings and of maintaining a strong working relationship between the Pooling Partners;

(b) that any dispute between the Pooling Partners in relation to matters covered by this Agreement will be referred to in the first instance to the Chief Executives of the Pooling Partners who may, at their sole discretion, delegate the dispute to the appropriate senior officer within 10 Business Days of written notice of the

dispute;

(c) that if the Chief Executives or their delegates are not able to resolve the dispute within 5 Business Days of meeting then the Host Council may refer the matter to a mediation facilitated by the Local Government Association or to a suitably qualified and independent person, as recommended by the respective Chief Executives and as agreed by the Pooling Partners;

(d) that where any dispute is agreed to be of a legal or technical nature the parties to the dispute may (but not must) jointly take the opinion of an appropriate expert including opinion of senior legal counsel where appropriate. Such expert opinion must be instructed within 10 days of referral to Chief Executives under sub-clause (b) following which the opinion should be delivered within a further 10 days unless the nature and/or details of the dispute or opinion dictate that an alternative timeframe needs to be followed;

(e) that, if after exhausting other methods of dispute resolution, one of the Pooling Partners commences legal proceedings then this will be subject to the exclusive jurisdiction of the Courts of England and Wales.

All costs are borne equally between the Pooling Partners which are party to the dispute unless agreed otherwise by the Joint Governance Committee or ordered by the Courts.

This Agreement has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.

IN WITNESS of which this document has been executed and, on the date set out above, delivered as a deed.

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **TAMESIDE METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **CITY OF BRADFORD METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **WIRRAL METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

Schedule 1

Matters Reserved to the Pooling Partners in their respective capacities

1 Appointment, termination or replacement of the Pool Custodian following the making of a recommendation by the Joint Governance Committee.

2 Formulation, approval or revisions of each respective Pooling Partner's investment strategy for the purposes of regulation 7 of the Investment Regulations.

3 Admission of a new administering authority within the LGPS to the Northern LGPS as a Pooling Partner (pursuant to clause 19).

4 Amendments of this Agreement (pursuant to clause 29).

5 Termination of this Agreement (pursuant to clause 23).

6 Approval of the initial Shared Objectives and any subsequent amendment (pursuant to clause 29).

7 Determination of the timing of the transition of any part of the Pooling Partner's Funds into a new investment arrangement recommended by the Officer Working Group.

8 Setting of policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

Schedule 2

Joint Governance Committee Terms of Reference

SCOPE

1 Subject to the terms of the Agreement, the Joint Governance Committee shall undertake those matters which are not Matters Reserved to the Pooling Partners as set out in Schedule 1.

PURPOSE

2 The primary purposes of the Joint Committee are to:

2.1 exercise oversight over the investment performance of the Pooling Partners' Funds;

2.2 deliver the Shared Objectives;

2.3 agree on any recommended changes to the Shared Objectives from time to time to refer to the Pooling Partners; and

2.4 report to the Pooling Partners quarterly (and at any other time when the Joint Governance Committee considers it to be necessary) on the matters within their remit below.

REMIT

3 Monitoring and benchmarking performance against key performance indicators and costs and reporting back to the Pooling Partners.

4 Making recommendations on the appointment, replacement or termination of the Pool Custodian to the Pooling Partners.

5 Oversight of responsible investment activities (including ethical, social and governance matters and voting rights) of the Pooling Partners and making recommendations to the Pooling Partners as to any changes.

6 Engagement with the Pooling Partners to help drive efficiencies in investment management, research or administration.

7 Nominating representatives to national structures as appropriate (for example any LGPS cross-pool forum or national infrastructure board).

8 Overseeing staffing requirements of the Northern LGPS investment vehicles.

9 Delegation of tasks to the Officer Working Group, including the selection of external investment managers, preparation of reports and draft documents and the responding to Government or other consultations].

10 Oversight of Northern LGPS investment vehicles and reviewing opportunities for collaborative working with other investors (including other LGPS pools).

11 Appointing and replacing service providers and advisers to the Joint Governance Committee.

12 Liaison with Pension Boards as appropriate in line with CIPFA Guidance, and Statutory Guidance.

13 Reporting on the performance of the Northern LGPS, its costs and other activities, but not limited to the Ministry for Housing, Communities and Local Government, the Scheme Advisory Board and the general public.

14 Applying any processes or policies, for example in relation to conflicts on interest that are assigned to the Joint Governance Committee under this Agreement by the Pooling Partners.

15 Monitoring the implementation and effectiveness of the Northern LGPS policies and procedures and initiating reviews of these with the Host Council where required.

16 Seeking advice from officers and professional advisers where necessary.

17 Overseeing any shared costs of the Joint Governance Committee.

Schedule 3

Joint Governance Committee Procedure

1 MEMBERSHIP

1.1 The membership of the Joint Governance Committee shall consist of the chair and deputy-chair of each of the Pooling Partners' pension committees or such alternative persons nominated by the Pooling Partners.

1.2 In addition up to three trade union representatives may be appointed after being nominated by the Trades Union Council and subject to the agreement of the Pooling Partners. The trade union representative members shall have the appropriate technical skills to represent scheme members' interests in investment matters and will be selected to represent the interests of members from their respective geographical regions.

1.3 The Joint Governance Committee shall not include any non-voting or co-opted members.

2 MEETINGS

2.1 Meetings shall ordinarily be held four times per municipal year.
The anticipated schedule of meetings and the locations in which they will be held will be agreed in advance.

2.2 A meeting may be held at such time and place as the Chair of the Joint Governance Committee thinks fit.

2.3 A meeting of the Joint Governance Committee may be called by a proper officer of the Host Council on the request of the Chair. Members must declare any conflict of interest in respect of any business being conducted at the meeting which would likely to be regarded to prejudice the exercise of a person's function as a participant in the meeting.

2.4 The Chair is responsible for the running of meetings. The Chair shall invite Members expressing a desire to speak in turn. All discussion and debate shall be held through the Chair and the Chair may draw a discussion to a vote at any time when he/she considers that every Member has been given a fair opportunity to speak.

2.5 Members may participate in meetings via telephone subject to the agreement of The Chair.

2.6 Minutes will be kept of all meetings. The Chair will sign the minutes of the proceedings at the next suitable meeting.

2.7 Notice of meetings

(a) A notice of meeting specifying the place, date and time of the meeting and containing a statement of the matters to be discussed at the meeting, shall be served on all of the Members of the Joint Governance Committee by the appropriate governance officer of the Host Council;

(b) Subject to clause 2.7(c), notice of each meeting, copies of the agenda and any reports to be presented at the meeting, shall be given to all Pooling Partners by the Host Council no later than 7 clear days before the date of the meeting. The Pooling Partners shall ensure that a minimum of five clear days' notice of all meetings is given in accordance with their normal procedures for notification of Council meetings and all papers made available at all of the Pooling Partners head offices for inspection for those five days unless certified as exempt or confidential in which case agendas and any non-certified items are made available only.

(c) If a meeting is required to be held with less than 5 days' notice, the Chair must agree it is required urgently, and may in exceptional circumstances approve the shortened notice period and allow as much notice as possible to be given. Notice should be given in the same manner, and the documents should be made available to all of the Pooling Partners for as many days as practicable before the meeting.

2.8 Exclusion of the public and press

(a) Where any item to be discussed forms exempt information the Chair shall move that the public and press are excluded from the meeting for the duration of the discussion and voting on that item. Motions to exclude the press and public do not require to be seconded and shall be determined by simple majority vote of the Members present.

(b) Where the press and public are excluded under clause 2.8(a) above the Chair may invite any person to remain in the meeting where he/she considers it to be necessary or appropriate to do so and any officers of the Pooling Partners present shall be presumed to be invited to remain unless the Chair specifies otherwise.

(c) Any person may be excluded from a meeting or required to leave a meeting where in the opinion of the Chair he/she is causing a disturbance to the running of the meeting and has not desisted from so doing following a request; or where any person is so disruptive that his/her conduct if allowed to remain would prevent the meeting from proceeding in a fair and acceptable manner.

2.9 The Joint Governance Committee may, through the Chair, invite any person to speak at a meeting.

2.10 Officers presenting reports to the Joint Governance Committee may be asked questions following such presentation.

2.11 Section 151 Officers and Monitoring Officers (and in their absence their deputies) of any Pooling Partner are entitled to attend all meetings including any part of any meeting which is closed to the public and press.

3 QUORUM

3.1 The quorum shall be three Members including at least one Member from each of the Pooling Partners.

3.2 Where a quorum is not present within 15 minutes of the start of the meeting and the Chair has not been notified that one or more Members have been delayed but will be attending, the meeting shall not be held and the Host Council will be ask to schedule and give notice of a replacement meeting.

3.3 Where, during any meeting there is no quorum present, then the meeting will adjourn immediately. If the Chair has been unable to ascertain within 15 minutes that the quorum can be restored the remaining business will be considered at another time and date fixed by the Chair.

4 CHAIR AND VICE CHAIR(S)

4.1 The Chair shall be an elected Member of one of the Pooling Partners and shall be appointed by unanimous vote for a term of 12 calendar months.

4.2 Two Deputy Chairs shall be appointed by unanimous vote for a term of 12 calendar months. The Deputy Chairs shall be representatives of different Pooling Partners to each other and to that of the Chair.

4.3 In the absence of the Chair, either or both Deputy Chairs (by agreement) shall be entitled to exercise all of the functions of the Chair.

4.4 The decision of the Chair of the meeting on all points of procedure and order and the Chair's interpretation of any rule in this schedule shall be final and no debate may ensue thereon. The Chair shall be entitled to take the advice of a governance officer in interpreting any rule or objection on procedure.

4.5 The Chair may be assisted during meetings by a governance officer on procedural matters and such administrative officers as the Chair considers appropriate. Such governance and secretarial officers shall be entitled to remain in the meeting where the public and press are excluded.

5 AGENDA

5.1 An agenda shall be produced in advance for each meeting by the Host Council following consultation with the Chair.

5.2 The agenda for each meeting shall contain as the first substantive item the approval of the minutes of the previous meeting. The Chair will move that the minutes of the previous meeting be signed as a correct record. Any matters arising from minutes of the previous meeting shall be regarded as items on the agenda of the current meeting but only if they have been specified as items of business in the notice summoning the meeting.

5.3 The Pooling Partners may ask the Chair to include any matter on the agenda which they consider should be discussed by the Joint Governance Committee.

5.4 The decision on whether to allow discussion on any other matter not on the agenda of a meeting at that meeting shall be made by the Chair.

6 MOTIONS

6.1 Any Member may propose a motion. All motions must be seconded. Motions which are opposed shall be put to a vote in accordance with the voting provisions of this schedule.

6.2 A Member may raise a point of order at any time. The Chair will hear them immediately. A point of order may only relate to an alleged breach of the provisions of this Schedule, or the law or other competent authority. The Member must indicate the provision or law or regulation and the way in which he/she considers it has been broken. The ruling of the Chair on the matter will be final. The Chair may take advice on the point of order from the appropriate officer.

7 VOTING

7.1 The Chair shall seek consensus wherever possible however where a vote is required the provisions of this section shall apply.

7.2 Each Member present will have one vote and voting will be by means of a show of hands. In the event of a tied vote, the Chair shall have a second or casting vote.

7.3 All decisions will be determined by simple majority.

7.4 In the event that a vote is taken, the voting positions and any abstentions of members will be recorded in the minutes.

8 SUB-COMMITTEES AND WORKING GROUPS

8.1 The Joint Governance Committee shall form such sub-committees and working groups as it considers expedient to performing its function. The Joint Governance Committee shall at the time of forming sub-committees or working groups set out the remit of the sub-committees or working groups, what the sub-committees or working groups are

required to deliver and the timescale for that delivery.

8.2 Sub-committees and working groups shall be entitled to request the input and support of officers in the same manner as the Joint Governance Committee.

8.3 Each sub-committee and working group shall appoint a chair for that sub-committee or working group, who is to be one of the members of the sub-committee or working group.

8.4 Working groups may invite any person who is not a member to join the group in order to assist in carrying out its function.

8.5 The Chairs of sub-committees and working groups shall report to Joint Governance Committee at each meeting of that committee on the progress of the matters within their remit.

8.6 Sub-committees and working groups may be disbanded at any time on the vote of the Joint Governance Committee.

8.7 The provisions of paragraphs 5 to 7 (Agenda, Motions and Voting) of this Schedule shall apply to any sub-committee and working group meetings.

9 REMUNERATION

9.1 The Host Authority and/or Pooling Partners shall arrange for the appointment of an independent remuneration panel to advise them on appropriate levels of special responsibility allowances to be payable to their Councillor Members of the Joint Governance Committee in respect of duties and responsibilities undertaken as Members of the Joint Governance Committee. A commensurate allowance will be payable to all non-elected Members of the Joint Governance Commitee in the interests of fairness and consistency.

Schedule 4

Officer Working Group Terms of Reference

MEMBERSHIP

The Officer Working Group shall consist of the Directors of each of the Pooling Partners' Funds (or their nominated representatives) supported by such officers of the Pooling Partners as may be required from time to time. Such nominated officers (and any substitutes or alternates designated by the Pooling Partners) must have the appropriate technical skills to advise the Joint Governance Committee on those matters within its own Terms of Reference as set out in Schedule 2. The role of the Officer Working Group is to provide a central resource for advice, assistance, guidance and support for the Joint Governance Committee. The Officer Working Group shall operate on the understanding that any recommendations made to the Joint Governance Committee shall be made on a unanimous basis.

REMIT

The Officer Working Group will have specific responsibility for the following tasks:

INVESTMENT MANAGER AND EXTERNAL INVESTMENT RELATIONS

1 Due diligence on, procurement, and selection of external investment management arrangements by the Pooling Partners and reporting outcomes to the Joint Governance Committee.

2. Informing the Joint Governance Committee of any amendments to the terms of agreements with external managers including (without limitation) by reference to investment objectives, restrictions, fee levels, reporting and key personnel changes, delegations of functions to a third party or associates.

3 Researching coinvestment opportunities for and formulation of proposals to the Joint Governance Committee.

4 Recommending the resolution of any conflicts of interest issues in relation to external managers (eg in relation to investor committees in limited partnerships where the Pooling Partners may be invested).

5 Identifying areas for improvement and cost reductions by external managers or the Pool Custodian.

6 Keeping investment structures under review and making recommendations to the Pooling Partners from time to time.

REPORTING

7 Determining documentation and presenting information required from external managers for the meetings of the Joint Governance Committee.

8 Considering the requirements for measuring and reporting on cost savings, benchmarking and preparing Northern LGPS reports for the Joint Governance Committee on the same to the Minister for Housing, Communities and Local Government and the LGPS Scheme Advisory Board.

9 Monitoring the performance of external investment managers, the Pool Custodian, keeping third party performance under constant review and reporting to the Joint Governance Committee.

JOINT GOVERNANCE COMMITTEE OPERATIONAL SUPPORT

10 Making recommendations on an annual strategic business plan for the Northern LGPS to the Pooling Partners.

11 Determining the budget necessary to implement the strategic business plans and liaising with each Pooling Partner's Section 151 Officer prior to making a final recommendation of the budget to the Joint Governance Committee.

12 Reviewing significant commercial, legal and media issues affecting the provision of services to the Northern LGPS.

13 Reviewing policy or process issues and recommending appropriate changes to the Joint Governance Committee.

14 Recommending and implementing a training plan for the Joint Governance Committee, Pooling Partners' Pension Committee members, Section 151 and Monitoring Officers and Pension Boards.

15 Recommending a communication strategy in relation to the Northern LGPS, including the drafting and reviewing of external communications including press releases.

16. Reviewing and approving a Data Protection Policy and any GDPR requirements.

Schedule 5

Deed of Adherence

This Agreement is made on 20[••]

(1) **TAMESIDE METROPOLITAN BOROUGH COUNCIL** of Guardsman Tony Downes House, 5 Manchester Road, Droylsden, Manchester M43 6SF (**"Tameside"**);

(2) **CITY OF BRADFORD METROPOLITAN BOROUGH COUNCIL** of Aldermanbury House, 4 Godwin street, Bradford, BD1 2ST (**"Bradford"**); and

(3) **WIRRAL METROPOLITAN BOROUGH COUNCIL** of Castle Chambers, 43 Castle Street, Liverpool L2 9SH (**"Wirral"**)

(**TOGETHER the "Existing Pooling Partners**")

(4) [**NAME OF NEW LOCAL AUTHORITY**] of [ADDRESS] (the "**New Pooling Partner**").

BACKGROUND

This Agreement is supplemental to a Joint Governance Committee agreement dated [DATE] and entered into by the Existing Pooling Partners (the "**Agreement**").

The New Pooling Partner wishes to be admitted as a new Pooling Partner pursuant to the Agreement.

OPERATIVE PROVISIONS

1 The definitions contained in the Agreement will have the same meanings in this Deed save where the context otherwise requires.

2 The New Pooling Partner confirms that it has been given and read a copy of the Agreement and covenants with each of the Existing Pooling Partners to perform and to be bound with effect from the date of this Deed by all the terms of the Agreement as if the New Pooling Partner was a party to the Agreement as a Pooling Partner. By executing this Deed all parties confirm that it is the intention that the New Pooling Partner shall be bound by and entitled to the benefit of the provisions of the Agreement as if it was a party to the Agreement and named in the Agreement as a Pooling Partner.

3 This Deed may be executed in any number of counterparts, each of which when executed will be an original but together will constitute one and the same agreement.

4 This Deed will be governed by and construed in accordance with the laws of England and Wales.

5 This document is executed as a deed and delivered on the date stated at the beginning of

this Deed.

IN WITNESS of which this document has been executed and, on the date set out above, delivered as a deed.

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **TAMESIDE METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **CITY OF BRADFORD METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **WIRRAL METROPOLITAN BOROUGH COUNCIL**, in the presence of:

Authorised Signatory:

EXECUTED as a deed, and delivered when dated, by affixing the common seal of **[NAME OF NEW POOLING PARTNER]**, in the presence of:

Authorised Signatory:

WIRRAL COUNCIL

PENSIONS COMMITTEE
16 JULY 2019

SUBJECT:	**TRAINING & DEVELOPMENT OPPORTUNITIES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with additional information on training and development opportunities.

2.0 BACKGROUND AND KEY ISSUES

2.1 The CIPFA Pensions Panel has developed a technical knowledge and skills framework for the Local Government Pension Scheme. The framework was adopted by Pensions Committee in 2010 as demonstrating best practice and enables the Fund to determine that Committee has the appropriate mix of knowledge and skills necessary to discharge its governance requirements. It also assists Members in planning their training and development needs. An outline training programme is approved by Committee annually with further details of events provided nearer the time.

2.2 The appendix to this report provides further information on opportunities of which the Fund has been notified.

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

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

4.1 A variety of external and internal opportunities are available and bespoke training can be arranged as necessary.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 Provision for Member training and development is included in the Fund's annual operating budget. Specific costs of events are set out in the appendix.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

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

14.0 REASON/S FOR RECOMMENDATION/S

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

REPORT AUTHOR: Peter Wallach
Director of Pensions
telephone (0151) 242 1309
email peterwallach@wirral.gov.uk

APPENDICES

Appendix 1- Training & Development Opportunities

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
Standing item on Committee agenda	

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EVENT	LGPS FUNDAMENTALS TRAINING
SUMMARY	Fundamentals is a bespoke three day training course aimed at elected members and others who attend pension committees/panels and local pension boards. Past delegates include elected members, trade union representatives, member and employer representatives, as well as a variety of officers who attend/support committees and some private sector organisations who provide services to administering authorities. The course provides a scheme overview and covers current issues in relation to administration, investments and governance of the LGPS. Attending all three days will assist delegates in meeting the relevant requirement for knowledge, skills and understanding either required in statute or encouraged by relevant guidance. Each day's programme will start at 10am, with registration and coffee from 9:30am, and close by 4pm with refreshments and lunch provided.
VENUE	London, Leeds, Cardiff
DATE(S)	

DAY 1	London	03.10.19
	Leeds	17.10.19
	Cardiff	31.10.19
DAY 2	London	06.11.19
	Leeds	14.11.19
	Cardiff	21.11.19
DAY 3	London	05.12.19
	Leeds	12.12.19
	Cardiff	18.12.19

COST	£780+VAT
EVENT	LGC INVESTMENT & PENSIONS SUMMIT
SUMMARY	At this year's event, we will hear how to move on from 2019 and identify the investment opportunities for the Local Government Pension Scheme from 2020 onwards. With action-packed and volatile markets, geopolitics and populism dominating recent years **join us at Celtic Manor** to gain clarity on which investment themes will play out and what the investment future holds for the LGPS. Agenda not yet available. **What's new for 2019:** • Dedicated sessions relevant for your specific role • Interactive discussion sessions, enabling you to contribute to the debate and learn from your peers

	• An Oxford Union debate on social impact • More opportunities to participate and answer the burning issues on your agenda • An easy-to-use app, connecting you with the individuals you want to meet at the event
VENUE	Celtic Manor, Newport
DATE(S)	5-6 September
COST	£1,049 + VAT
EVENT	**LGPS GOVERNANCE CONFERENCE**
SUMMARY	Although primarily aimed at elected members, the conference will be of interest to other people who attend pension committees, panels or sub-committees etc (e.g. employing authority, trade union and pensioner representatives, as well as officers and local pension board members). The planned programme includes sessions on: • Scheme Advisory Board • Checking compliance • Cost cap • Regulating the reforms • Scheme simplification • Investment spotlight • Legal update •
VENUE	York
DATE(S)	23-24 January 2020
COST	£515 + VAT
EVENT	**PLSA ANNUAL CONFERENCE & EXHIBITION 2019**
SUMMARY	Attracting 1,500 top industry professionals and with over 80 exhibition stands the PLSA Annual Conference and Exhibition is an important annual event for anyone involved in pensions. From trustees, pension managers and finance directors who control assets worth billions of pounds to HR specialists responsible for workforces of thousands of people, the delegates are made up of the most important pension decision makers in the country.

	The conference includes keynote speeches, streamed focus sessions, specialist sessions, a Trustee Learning Zone, exhibition and a conference drinks reception. The conference includes keynote speeches, streamed focus sessions, specialist sessions, a Trustee Learning Zone, exhibition and a conference drinks reception. Several months after the launch of the new CTI templates, we'll be looking closely at some of the latest insights into cost transparency for UK pension funds.
VENUE	Manchester
DATE(S)	16-18 October 2019
COST	FREE but a charge of £345 + VAT is levied for non-attendance

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**MINUTES OF WORKING PARTY MEETINGS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	No

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the minutes of meetings of Working Parties held since the last meeting.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Investment Monitoring and Governance & Risk Working Parties enable Members and their advisors to consider pension matters relating to Merseyside Pension Fund in greater detail. They are not decision-making bodies but minutes and action points arising are reported to Committee.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

6.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 There are none arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATIONS

11.1 That Members approve the minutes attached as an appendix to this report.

13.0 REASONS FOR RECOMMENDATIONS

13.1 The approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

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APPENDICES

Appendix 1 & 2 Working Party minutes

REFERENCE MATERIAL

None.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP and GRWP meetings are brought to the subsequent Pensions Committee.	

Minutes of the Governance and Risk Working Party, Tuesday 12 March 2019

Present:

Name	Initials	Organisation
Councillor Paul Doughty (Chair)	PD	WBC
Roger Bannister	RB	Unison
Peter Wallach	PW	Director of MPF
Yvonne Caddock	YC	Head of Pensions Administration
Guy Hayton	GH	Senior Manager Operations & Information Governance
Donna Smith	DS	Head of Finance & Risk

Apologies were received from:

Name	Initials	Organisation
Councillor Brian Kenny	BK	WBC
Councillor Cherry Povall	CP	WBC
Councillor Pat Cleary	PC	WBC
Councillor John Fulham	JF	SHC
Councillor Paulette Lappin	PL	Sefton Council
Councillor Tony Jones	TJ	WBC
Councillor Pat Hackett	PH	WBC
Councillor George Davies	GD	WBC
Councillor Ian Byrne	IB	LCC

In attendance: Emma Jones.

1. Approval of Minutes

Minutes of GRWP, dated Thursday 12 July 2018 were approved at Pension Committee 29 October 2018.

2. Declarations of Interest

Roger Bannister declared a pecuniary interest by virtue of being a member of the Fund.

Noting/Action points

Noted.

3. Business Plan

PW reported that the Fund's Business Plan covers five principal areas: divisional activities, departmental projects and activities, section projects and activities, horizon scanning and procurement activities for the forthcoming year. It identifies resource requirements and contingencies.

Noting/Action Points

The report was duly noted.

4. Pensions Administration KPI report.

YC reported that items contained within the KPI report will be taken to Pensions Committee as they progress. The monetary information for Q1 activities with key statistical information will be taken to the October Pensions Committee.

Immediate Payments. Material changes to transfers and refunds process and appropriate updates to the Pension Benefit System. Appropriate training of staff took place with testing and acceptance of the software processes carried out. Internal Audit was satisfied that no significant risks were identified.

Annual Benefit exercise. It has been a very busy time with a backlog of 3000 deferred benefit cases which are now cleared. New practices have been put in place to reduce further backlogs.

YC reported that the Fund have communicated to all deferred members to notify them of the material change in the regulations and to inform of AVC measures.

YC reported on the TPR Code of Practice which is a new operating model with more focus on engagement.

A discussion ensued with regard to a letter sent by The Pensions Regulator (TPR) advising that they are going to carry out 'deep dives' into LGPS administration practices to increase their scrutiny. YC advised that she is aware of the scrutiny from TPR but MPF were not one of the Funds who were sent the letter.

Noting/Action Points

The report was duly noted.

5. Pooling Governance & Consultation

PJW reported that Pooling remains an area of significant focus for the Fund and gave a brief overview of the current issues arising. PJW reported that the Northern LGPS has prepared a detailed response to the current proposals from Government to raise concerns and has sought legal advice. The QC's brief will be reported to Pensions Committee.

Noting/Action Points

The report was duly noted.

6. Risk Register

PJW reported on the Risk Register and explained that it is an integral part of the Fund's business planning, policies and procedures. The Risk Register is used to identify, assess, and manage risks through a review and updating process. The register is prepared in accordance with Wirral's Risk Management Policy and records the details of all risks that have been identified and how those risks will be managed. It is a standing item on the monthly Fund Operating Group agenda. It is reviewed formally by officers on a six-monthly basis and updated immediately if any risks are identified in the interim.

PJW reported no new risks have arisen over the previous financial year but there are new data requirements with the introduction of TPR which have added additional complexities which has been recognised by both the Fund and its members. YC advised that Employers have been working hard to meet the guidelines set.

Noting/Action Points

The report was duly noted.

7. Gifts & Hospitality

DS advised that there are two sections in the report which covers January 2018 to December 2018. Subsidised Business Events attended by officers of the Fund; and details of gifts and hospitality received.

Noting/Action Points

The report was duly noted.

8. Overseas Travel

PJW reported Overseas Travel for the period of 1 January 2018 to December 2018.

Reasons for travel were discussed and it was noted that in many cases the costs reported are minimal as the costs are met by the host organisation or defrayed by participation at conferences.

Noting/Action Points

The report was duly noted.

9. AOB

There was no additional business to discuss.

Noting/Action Points

None.

Date of Next Meeting

Wednesday 18 September 2019 at 2.30pm

1. Minutes of Investment Monitoring Working Party held on 12th March 2019

Attendees

Name	Initials	Organisation
Councillor Paul Doughty (Chair)	PD	WMBC
Councillor Brian Kenny	BC	WMBC
Councillor Patrick Cleary	PC	WMBC
Councillor Andrew Gardner	AG	WMBC
Councillor Paulette Lappin	PL	SMBC
Roger Bannister	RB	UNISON
Rohan Worrall	RW	Independent Advisor
Noel Mills	NM	Independent Advisor
Tim Manuel	TM	Aon Hewitt
Peter Wallach	PW	MPF
Linda Desforges	LD	MPF
Greg Campbell	GC	MPF
Allister Goulding	AGO	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Daniel Proudfoot	DP	MPF
Alex Abela-Stevenson	AAS	MPF
Emma Jones	EJ	MPF
Neil Gill	NG	MPF

Apologies

Name	Initials	Organisation
Councillor Cherry Povall	CP	WMBC
Councillor George Davies	GD	WMBC
Councillor Pat Hackett	PH	WMBC
Councillor Jayne Aston	JA	KMBC
Councillor Tony Jones	TJ	WMBC
Councillor John Fulham	JF	SHMBC
Councillor Ian Byrne	IB	LCC

Declarations of interest

Councillor Paulette Lappin and Mr Roger Bannister declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

1.1 Minutes of Investment Monitoring Working Party held on 11th September 2018

The minutes were noted and agreed.

1.2 Q4 2018 review

1.2(a) Management Executive Summary

PW reported that for the period ending Q4 2018, the Fund had delivered a 1-year net return of 1.60%, compared to the benchmark return of -3.22%. The Funding position was at 95%. PW noted that Alternatives had contributed to returns substantially.

Action Points: None

1.2(b) Market Commentary

NM discussed how the decline in US equity markets had spread to all equity markets. Despite this, growth remained strong in the US economy, but this could result in higher inflation, in which case one would expect the US Federal Reserve to increase interest rates. NM felt that the main risk remained a potential US-China trade war, but that there was

evidence that this is likely to be some sort of agreement before the next round of tariff increases was scheduled to take place.

Another concern was GBP weakening, which would result in increased inflation. However, NM anticipated if clarity was reached regarding Brexit negotiations, this would provide a catalyst for the domestic UK stock market and GBP appreciation. The discussion moved on to possible Brexit outcomes and it was agreed that any deal other than 'no deal' would facilitate a rise in markets and GBP.

A discussion ensued with regard to equities; specifically, if US stock valuations remain high it would be hard to see the level of returns one had become accustomed to in recent years. NM advised that metrics suggest intrinsic value in emerging market equities. NM advised that as a means of managing the damaging impact of a 'hard-Brexit', most financial institutions had formulated contingency plans; with some moving money out of the UK.

Action Points: None

1.2(c) Strategic Adviser Update

TM focused on Mercer's report which detailed the Fund's assets and liabilities as at 31st December 2018; noting that there had been a drop in the funding level over the last 3 months due to downward moves in global equity markets; although adding that this trend reversed in Q1 2019.

LD advised that the Fund was not breaching limits pertaining to strategic and tactical asset allocations.

Action Points: None

1.2(d) Valuation and performance summary, including Monitoring Report

LD reported that active equity managers had experienced some difficulties in terms of generating superior relative returns. This was supported by Inalytics, who assist with the monitoring of the Fund's active equity mandates, highlighting that it has been a difficult year for active equity managers across the board.

LD reported that the Infrastructure portfolio had returned 11.8% over the year and advised that the Fund was exploring the introduction of benchmarks which would better reflect its relative performance. LD added that Property and Private Equity portfolios had performed well; with the latter seeing an uptick in distributions in 2018.

LD advised that the strategic investment review would look at the relative performance of active managers in greater detail, but that this has been delayed and was due to commence in the near future.

LD said the Hedge Fund portfolio's relative returns had been disappointing, in particular US-domiciled funds whose returns required hedging back to GBP. It was explained that the Goldman Sachs Alternative Risk Premia strategy had suffered; with many of the investment buckets delivering negative returns, but that conviction remained that persistent risk premia remain intact in the market, so a reversal of fortune was anticipated going forward.

PD thanked the Investment team for their work in 2018.

Action Points: None

1.3. Responsible investment

1.3(a) Responsible investment update

OT reported that the FTSE Russell-designed, SSGA-implemented decarbonisation portfolio had commenced trading; serving to reduce the amount of climate risk to the Fund and reducing the Fund's fossil reserve exposure.

A clip was shown of the FTSE Russell launch of the decarbonisation index at the London Stock Exchange.

OT explained prior to this, there has been some groundwork with a mini release at the PLSA event in Liverpool. OT reported he has spoken at a number of events as the Fund is keen that other investors look at the strategy and invest alongside MPF. Work is ongoing with Northern Trust in compiling results to better understand the mitigating factors of the index. OT stressed that although the Fund is reducing its climate risk, it is not divesting fully from carbon investments.

OT reported that the 2019 proxy voting season was underway. There had been a shareholder resolution at BP which the Fund co-filed as part of a climate action which was accepted by the management at BP. PD reported that there had been a lot of work with LAPFF which had brought about change by coordinating the exercise of its membership's voting rights.

OT reported that the Northern LGPS announced its climate policy and commitment to reporting on voting, which will offer transparency and enact the shareholders rights

directive. It also expands the scope of stewardship of liquid assets and exerts influence and ownership.

A discussion followed with regarding pooling partners and their commitment towards climate risk. The Northern LGPS is working on implementing its Responsible Investment Policy and towards pre-disclosing its voting policy which will enable advantage in scale.

The Government announced that ARGA (Audit Risk Governance Authority) had been established.

Action Points: None

1.3(b) PIRC quarterly voting report

The above report was contained within the IMWP pack and duly noted.

Action Points: None

1.3(c) LAPFF quarterly engagement reports

The above report was contained within the IMWP pack and duly noted.

Action Points: None

1.3(d) Climate risk

A report on the decarbonisation plan was contained within the IMWP pack and duly noted.

Action Points: None

1.4 Manager presentations

1.4(a) Unigestion –Europe ex-UK equities; Emerging Market equities

Action Points: None

1.4(b) Merseyside Pension Fund – Property

Action Points: None

1.4(c) Merseyside Pension Fund - Infrastructure

Action Points: None

1.5 Notes and discussion points

None.

Date of next meeting: Thursday, 6th June 2019.

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2019

SUBJECT:	**LOCAL PENSION BOARD MINUTES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides members with the minutes of the previous meeting of the Local Pension Board.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Local Pension Board was established in 2015 in accordance with section 5 of the Public Service Pensions Act 2013 to assist the Administering Authority in its role as a scheme manager of the Scheme.

2.2 The Local Pension Board provides reports to the Administering Authority on its activities and, as a part of that reporting, the minutes of its meetings are shared with Pensions Committee.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

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

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members note the minutes of the Local Pension Board

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Local Pension Board provides reports to the Administering Authority on its activities and, as a part of that reporting, it is best practice that its minutes are shared with Pensions Committee on a regular basis.

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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of Local Pension Board meetings are brought to the subsequent Pensions Committee meeting.	

LOCAL PENSIONS BOARD

Wednesday, 27 March 2019

Present: J Raisin (Chair)

G Broadhead
M Hornby
D Ridland
P Wiggins
R Irvine
P Maloney
L Robinson

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

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

No such declarations were made.

42 **MINUTES**

Resolved – That the accuracy of the Minutes of the Local Pension Board held on 16 October, 2018 be approved as a correct record.

43 **AUDIT PLAN**

Donna Smith, Head of Finance, presented the External Audit Plan prepared by Grant Thornton for the year ending 31 March 2019 and responded to Members questions. The Audit Plan had been presented to the Audit and Risk Management Committee, 11 March, 2019 and the Pensions Committee, 25 March, 2019.

Resolved – That the External Audit Plan Year ended 31 March 2019 be noted.

44 **LGPS UPDATE**

Yvonne Caddock, Head of Pensions Administration, presented the Local Pensions Board with an update on the LGPS and responded to Members questions. The appendices to the report provided Members with copies of updates taken to the Pensions Committee on 29 October, 2018, 21 January, 2019 and 25 March, 2019. It was noted that there was a typographical error in the update taken to the 25 March, 2019 Pensions Committee - paragraph 2.2 bullet point 6 that should read £12,851 and not £12,501 as stated in the report. Yvonne Caddock also explained the implications of the 'McCloud

Case' as the Government had recently lost a case in the Court of Appeal which would have a direct bearing on the cost of all public sector pension schemes. HMT and SAB had consequently 'paused' the cost management mechanism and withdrawn the proposals to amend scheme provisions. Members were informed that the appeal case known as the 'McCloud Case' concerned 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 had found that these protections were unlawful on the grounds of age discrimination and could not be justified. The Government had applied to the Supreme Court for permission to appeal the decision and it was expected that the Court would provide notice whether to grant the application by mid-April 2019. If the protections were deemed to be unlawful, those members who had been discriminated against would need to be offered appropriate remedies to ensure they were placed in an equivalent position to the protected members. It was noted that such remedies would need to be 'upwards' - that is the benefits of unprotected members would need to be raised rather than the benefits of protected members being reduced. 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 was anticipated that the outcome would apply to all public service schemes.

Yvonne Caddock informed Members that in light of the uncertainty of the outcome of the case, the SAB was consulting on the approach to be taken for the 2019 Actuarial Valuations. Although it was clear that there would be increased costs emerging either by virtue of the cost capping mechanism or outcome of the McCloud case, it was unknown how these costs would impact on individual employers because of individual member profiles. It was therefore likely that the 2019 Valuation would need to proceed based on current known costs. As such it would 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.

Resolved - That the report be noted.

45 **PENSION FUND BUDGET**

Members gave consideration to a report of the Director of Pensions that provided Board members with a copy of the pension fund budget report recently approved by Pensions Committee. Donna Smith, Head of Finance, outlined the report and responded to Members questions. The budget for 2019/20 was attached as appendix 1 to the report.

Resolved – That the report be noted.

46 **MEMBER DEVELOPMENT PROGRAMME**

A report of the Director of Pensions provided Board members with a copy of the development programme for Pension Committee members. A number of these opportunities were also available to Board members. The Development Programme for 2019 was attached at Appendix 1 to the report. The Chair commented that he would commend the training events to all Members as well as observing at IMWP and GRWP meetings. The Director of Pensions confirmed that all Members had completed the online training provided by The Pensions Regulator (TPR) and commented that suitable training suggestions from Members would be welcomed. A Member suggested inviting a relevant guest speaker to the Pension Board to talk about their area of interest – either following or prior to Board meetings. The Director of Pensions indicated that he would be happy to look into this on behalf of Board Members.

Resolved – That the report be noted.

47 **FAIR DEAL CONSULTATION**

Members gave consideration to a report of the Director of Pensions that covered the consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG) on 'New Fair Deal'. The consultation related to the introduction of greater pensions protection for employees of LGPS employers who were compulsorily transferred to service providers.

The consultation had been issued on 10 January 2019 with a request for consultation responses to be submitted by 4 April 2019. A draft response was attached as an appendix to the report. The response had been considered by Pensions Committee on 25 March 2018 and officers had been given approval for submission to MHCLG. The draft response had also been shared with the Independent Chair of the Pension Board for his review and comment.

Resolved – That the consultation document and the attached formal response be noted.

48 **TREASURY MANAGEMENT STRATEGY**

A report of the Director of Pensions provided Board members with a copy of the Treasury Management Policy recently taken to Pensions Committee. The Treasury Management Policy Statement 2019/20 was attached as an appendix to the report. The annual approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund by Pensions Committee formed part of the governance arrangements of Merseyside Pension Fund. Donna Smith, Head of Pensions presented the report and responded to Members questions.

Resolved – That the report be noted.

49 **LIABILITY RISK MANAGEMENT**

A report of the Director of Pensions provided Board members with a copy of a recent report to Pensions Committee on this subject. The report provided the Board with information on the development of risk reduction strategies for the Fund. 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).

Resolved – That the report be noted.

50 **POOLING UPDATE**

Members gave consideration to a report of the Director of Pensions that provided Board members with a copy of recent reports to Pensions Committee on this subject.

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).

Following discussion it was;

Resolved – That;

(i) The Local Pension Board of Merseyside LGPS Fund supports the principle of asset pooling.

(ii) The Local Pension Board, however, believes it is both unnecessarily prescriptive and a clear and unjustifiable waste of money for the MHCLG to insist the Northern LGPS establish an FCA regulated company at a cost of several million pounds per annum. This would, we believe, constitute a misuse by MHCLG of money contributed to the LGPS by both the individual members and employers within the LGPS.

(iii) The Local Pension Board urges the MHCLG to undertake meaningful discussions with the Merseyside, Greater Manchester and West Yorkshire LGPS funds, ahead of finalising the Statutory Guidance on asset pooling, to reach an acceptable solution to the issue of appointing, monitoring and dismissal of investment managers, prior to the issuing of the final Statutory Guidance on asset pooling.

51 **WORKING PARTY MINUTES**

A report of the Director of Pensions provided Board members with copies of working party minutes since the previous Pension Board 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).

52 **VOTE OF THANKS - MIKE HORNBY**

On behalf of Members the Chair of the Committee offered a vote of thanks to Mike Hornby who was attending his last meeting of the Pension Board. The Chair commented that Mike had brought valuable knowledge to the Local Pension Board, thanked him for his contribution for the last 4 years and wished him well for the future.

53 **COUNCILLOR PAUL DOUGHTY**

Councillor Paul Doughty attended the meeting to speak about his role as Chair of the Pensions Committee and Chair of the Northern Pool. Councillor Doughty provided an oversight into his role as Chair of LAPFF and his engagement, on behalf of the Pension Fund, with companies including Sports Direct, Ryanair, Nestlé, BHP Billiton, Shell, Diageo and Santander. As he would not be standing for election in the forthcoming elections he commented that it had been a pleasure to represent Merseyside Pension Fund and speak to CEO's of these companies and highlighted that this presented a profile of MPF doing well on the National stage and also identified the need for engaging with other companies such as Amazon. Cllr Doughty thanked the Local Pension Board for their support with LAPFF and in turn the Chair of the Pension Board thanked Councillor Doughty for coming to the meeting to present an illuminating talk to Members.

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

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during

consideration of the following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

55 **LIABILITY RISK MANAGEMENT**

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

56 **POOLING UPDATE**

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

57 **ADMINISTRATION KPI REPORT**

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

58 **WORKING PARTY MINUTES**

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

59 **INTERNAL INVESTMENT MANAGEMENT EXEMPT REPORT**

The report on Internal Investment Management was exempt by virtue of paragraph 3.

The Local Pension Board of Merseyside LGPS Fund considered the report and discussed the recruitment and retention issues facing the fund in delivering its objectives. It was recognised that this was an increasing challenge for public bodies and encouraged the Director of Pensions to explore alternatives such as market-related supplements which were being adopted by other organisations where more usual approaches were not able to deliver what is needed.

Resolved – That the report be noted.

WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 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 an update on pooling arrangements in respect of MPF and the Northern LGPS. Since the previous update, progress has been made on the Operating Agreement which is the subject of a separate report to the Committee.

1.2 Approval is sought for a revision to the Fund's Investment Strategy Statement https://mpfmembers.org.uk/pdf/iss_1.pdf to reflect the way in which pooling is progressing. A draft of the revised wording is attached as appendix 1.

1.3 Appendix 2 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 MPF has continued to work with its pooling partners to finalise governance arrangements for the Pool's Joint Committee. An underpinning element of this is a Northern Pool inter-authority operating agreement between the three funds which is close to being concluded and is the subject of a separate report on this agenda.

2.2 The LGPS (Management and Investment of Funds) Regulations 2016, Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. This must include "the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;".

2.3 The Fund's investment strategy statement needs to be updated to reflect the current situation on pooling and a revised statement is attached for members to consider.

2.4 Minutes of the Northern LGPS Shadow Joint Committee on 28 March 2019 are attached at exempt appendix 2.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

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

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 pooling report and minutes of the Shadow Joint Committee meeting on 28 March 2019.

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

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Pooling will result in fundamental changes to the oversight and management of LGPS assets and it is important that Members are informed of all developments affecting the Fund.

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APPENDICES

Revised Investment Strategy Statement
Minutes of Shadow Joint Committee meeting 28 March 2019.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

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The Fund's approach to pooling investments including the use of collective investment vehicles and shared services

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern LGPS ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government (now MHCLG) provided confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.4bn, which is in excess of the £25bn criterion set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete.

The principal benefits of pooling for the funds in the Northern LGPS are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. Following detailed discussions and consideration of professional advice, it was agreed in March 2017 by each of the participating funds that in order to meet the Reduced Costs and Excellent Value for Money criterion set by Government most effectively, the Northern LGPS should focus on collective investment in private market assets such as private equity and direct infrastructure. Subject to value for money requirements being fulfilled, private equity and direct infrastructure investments would be made via joint ventures and partnerships to enable material cost savings from an early stage. Such structures would in all cases be compliant with relevant financial services law. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

The Scale and Strong Governance and Decision Making criteria are met by:

i) a Joint Committee providing monitoring and oversight of the operations of the Northern LGPS with the Joint Committee constituted so as to separate elected members from any manager selection decisions and;
ii) appointing an FCA regulated common custodian for the Pool, which has custody of all the pool's actively managed listed assets (i.e. internally and externally managed

equities and bonds) and acts as master record-keeper for all pool assets.

Strategic asset allocation will continue to be set by each fund's pension committee with the selection of individual investments and investment managers for external mandates carried out on a pooled basis by appropriately qualified and experienced officers, operating under the legal framework of specialist investment vehicles where appropriate.

All public-market assets and new commitments to private equity and direct infrastructure will be monitored and overseen by the Northern LGPS Joint Committee with all assets other than day-to-day cash used for scheme administration purposes being held under the common custody agreement. Day-to-day cash is assumed to be 1% of total assets for each fund.

It is intended that the Pool will procure the following services, as required, on behalf of the participating funds

- External fund management for public-market mandates
- Common custodian for Pool
- Investment management systems
- Performance analytics
- Responsible Investment advisory services
- Other professional advice

The Northern LGPS Joint Committee is created via the approval of an inter-authority agreement between the administering authorities to the participating funds. The role of the Joint Committee is to:

i) provide monitoring and oversight of the Northern LGPS to ensure that the pool is effectively implementing the participating authorities' strategic asset allocation decisions;
ii) oversee reporting to the participating authorities' pension committees.
iii) act as a forum for the participating authorities to express the views of their pension committees;
iv) ensure segregation of duties in investment decision-making between elected members and officers;
v) monitor performance of portfolios;
vi) monitor the appointment of investment managers

Reporting processes of the Northern LGPS include regular written reports on the performance of Northern LGPS investments to the Joint Committee, which are discussed at formal meetings. The Joint Committee will not be undertaking any regulated activities.

The Northern LGPS' governing documentation grants the Joint Committee and each administering authority certain powers regarding the operation of the Northern LGPS, which can be used to ensure the effective performance of Northern LGPS. MPF's approach to pooling, set out above, will be reviewed periodically to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

A report on the progress of asset transfers will be made to the Scheme Advisory Board on at least an annual basis.

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

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