



Local Pensions Board

Date:	Wednesday, 5 February 2020
Time:	1.00 p.m.
Venue:	G25 Merseytravel, Mann Island

Contact Officer: Pat Phillips
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AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

2. MINUTES (Pages 1 - 10)

To approve the accuracy of the minutes of the meeting held on 12 November 2019.

3. LGPS UPDATE (Pages 11 - 16)

4. ACTUARIAL VALUATION (Pages 17 - 30)

5. FUNDING STRATEGY STATEMENT (Pages 31 - 88)

6. REVISED INVESTMENT STRATEGY (Pages 89 - 112)

7. TREASURY MANAGEMENT POLICY (Pages 113 - 130)

8. PENSION FUND BUDGET (Pages 131 - 138)

9. MEMBER DEVELOPMENT PROGRAMME (Pages 139 - 146)

10. GOOD GOVERNANCE PROJECT (Pages 147 - 156)

11. WORKING PARTY MINUTES (Pages 157 - 162)

- 12. PROPERTY ARREARS (Pages 163 - 168)**
- 13. INTERNAL MANAGEMENT (Pages 169 - 170)**
- 14. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

The following items contain exempt information.

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

- 15. WORKING PARTY MINUTES (Pages 171 - 178)**
- 16. PROPERTY ARREARS (Pages 179 - 180)**
- 17. ADMIN KPI REPORT (Pages 181 - 200)**
- 18. INTERNAL MANAGEMENT (Pages 201 - 204)**
- 19. RISK REGISTER (Pages 205 - 212)**

LOCAL PENSIONS BOARD

Tuesday, 12 November 2019

Present:

J Raisin (Chair)

D Ridland
R Irvine

L Robinson
P Fieldsend

Apologies

G Broadhead
P Wiggins

P Maloney

79 **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.

80 **MINUTES**

Resolved – That the accuracy of the minutes of the Local Pension Board held on 17 July 2019 be approved as a correct record.

With reference to the Minutes of the meeting the Chair commented that Pat Phillips, Committee Services, had taken the Minutes for the Local Pension Board since it had been established in 2015. The Chair placed on record his thanks for the quality of the minutes produced for this meeting and Board members echoed these sentiments.

81 **LGPS UPDATE**

A report of the Head of Pension Administration provided Board members with copies of recent LGPS update reports taken to Pensions Committee.

The report provided an update on the 'McCloud Case', which related to the transitional protections awarded to members who were closest to retirement age when the Judges' and Firefighter pension schemes had been reformed in 2015.

In addition, the report updated Members on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the proposed changes to

Equitable Life policies, the legacy Additional Voluntary Contributions (AVC) provider for Merseyside Pension Fund.

At the meeting of the Pensions Committee 25 March 2019 (minute 4 refers) Members had been informed of the Court of Appeal's decision, known as the 'McCloud Case'. The Court had ruled that the transitional protection afforded to older members of public service pension schemes was unlawful on the grounds of age discrimination.

On the 27 June 2019, the Supreme Court had denied the Government's leave to appeal, which meant that the Court of Appeal's decision would be upheld, and the case would be returned to an employment tribunal for a detailed decision.

Yvonne Murphy, Head of Pensions Administration, set out the implications for the LGPS and reported that on 15 July 2019, the Chief Secretary to the Treasury had announced in a written statement that "the government believes that the difference in treatment will need to be remedied across all public sector schemes; including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers."

Members were informed that as the remedy would involve "levelling up" member benefits it was expected that any agreed outcome would increase the cost of LGPS pensions. However, there was no certainty on the level of the increased cost.

Yvonne Murphy further outlined the reasons for the uncertainty of cost and the impact on Triennial Valuation. It was highlighted that once the McCloud case was remedied, Funds must revisit employer contribution rates to ensure they remain appropriate in considering any additional costs.

In relation to the Good Governance Report the report set out that the aim was for an options report to be considered by the SAB in November. Any proposals agreed by the Board would be subject to a stakeholder consultation before being presented to MHCLG.

The Committee was also informed of the Proposal – Transfer to Utmost Life and Pensions. It was reported that in June 2018, Equitable Life had announced that it had entered into an agreement to transfer its business to 'Utmost Life and Pensions'. Yvonne Murphy outlined the proposal and Members were informed that in August 2019, Equitable Life had written to all the LGPS administering authorities affected by the transfer to advise them that as both 'Scheme Policy Holders' and 'Eligible Members' they were able to vote:

- 1) to approve the 'Scheme'.

2) to 'Change the Articles' which would make Utmost Life and Pensions the Equitable Life's only Member.

The deadline for the receipt of postal and online votes was 10am on 30 October 2019. If enough Scheme Policyholders supported the proposals, Equitable Life intended to return to the High Court on 22 November 2019 to ask it to approve the Scheme and the Transfer.

Resolved – That the report be noted.

82 **GOVERNANCE STATEMENT**

Members gave consideration to a report of the Director of Pensions that gave details of amendments to the Fund's Governance Policy taken to Pensions Committee.

The report provided details of amendments to the Fund's Governance Policy to reflect changes to the Fund's governance arrangements as a consequence of 'Investment Pooling'.

The Director of Pensions reported that the Fund's Governance Policy Statement needed to be updated to reflect the new arrangements pertaining to investment pooling and a revised statement was attached for members consideration

The report reminded Members that, from the separate report on the agenda, MPF had been working with its pooling partners to conclude governance arrangements for the Northern LGPS's Joint Committee. An underpinning element of this was a Northern LGPS inter-authority operating agreement between the three funds. This operating agreement and the associated Constitutional changes had been considered and approved at the Standards and Constitutional Overview Committee on 28 September and at Full Council on 14 October 2019.

Regulation 55 of the LGPS Regulations 2013 set out the requirements for the publication of a Governance Policy Statement by the Fund. The policy had last been reviewed by the Pensions Committee on 16 November 2015.

Resolved – That the report be noted.

83 **THE PENSION REGULATOR ENGAGEMENT REPORT**

A report of the Director of Pensions provided members with an update on the Pensions Regulator (TPR) review of governance and administration risks across the LGPS. The Pensions Regulator Engagement Report was attached as an appendix to the report.

Members were informed that as good governance was a fundamental requirement to ensure effective running of all pension schemes TPR had undertaken a formal engagement with ten LGPS funds between October 2018 and July 2019.

The report taken to the Pensions Committee summarised the key findings from the engagement and suggested that focus needed to be placed on policies, processes and people.

Resolved – That the report be noted.

84 TRAINING & DEVELOPMENT OPPORTUNITIES

A report of the Director of Pensions provided Board members with a copy of a recent report to Pensions Committee on this subject. It also reminded members of their training responsibilities. The report informed the Board of training and development opportunities provided to members of Pensions Committee and noted that a number of these opportunities were also available to Board members.

The Director of Pensions noted that the report set out the key areas of knowledge that every member of the Wirral Pension Board must be conversant with relating to the key areas of knowledge and understanding of the law relating to pensions. Pension Board members were also expected to complete induction training within the first three months of their appointment. This consists of an online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).

The Director of Pensions also informed members that since the announcement of the General Election in December there was now a vacancy at the LAPFF Conference in Bournemouth should anyone on the Board wished to attend.

Resolved – That the report be noted.

85 PENSION BOARD TERMS OF REFERENCE

Members gave consideration to a report of the Director of Pensions that provided Board members with revisions to the Terms of Reference for Wirral Council's Local Pension Board. The revised Terms of Reference were attached as an appendix to the report.

Members were informed that the Pensions Regulator had increased its oversight of the LGPS and instigated a number of initiatives to assist it in engaging more widely. The role of the Local Pension Board had consequently expanded and the Terms of Reference had been revised to reflect these changes. The Director of Pensions highlighted a number of

changes that had been made and apprised members of the reasons for the revision and informed members that the revised Terms of Reference were expected to be considered by Council in December 2019.

Resolved – That the report be noted.

86 **CATALYST FUND UPDATE**

A report of the Director of Pensions provided Board members with an update on the Catalyst Fund.

Members were informed that the Catalyst Fund had been launched in 2016 with the aim of helping to deliver economic growth projects in Merseyside by providing debt and equity financing, whilst producing a commercial return for the Pension Fund. The Fund was looking to partner with public and private entities in developing projects that would deliver economic growth. The Director of Pensions noted that The Fund had a flexible investment approach designed to help deliver development in growth areas identified in the Liverpool City Region Growth Prospectus and the devolution deal agreed by Central Government and Liverpool City Region Combined Authority. Its principal focus was the provision of debt financing to local property-related or asset-backed opportunities. The appendix to the report provided the Board with information on two recent projects which had been reported to the Investment Monitoring Working Party in September.

The Director of Pensions reported that the fund was not looking to compete with commercial developers but provide finance to something that was commercially viable however was experiencing a funding gap. The preference for the fund was to lend as debt rather than equity as this was repaid more quickly, to then recycle funds and stimulate the local area further and members of the Board were supportive of this use of the fund.

Resolved – That the report be noted.

87 **COMPLIANCE MANUAL**

A report of the Director of Pensions provided Board members with details of a revision to Section 5 of the Compliance Manual for which approval had been agreed at Pensions Committee on 4 November 2019.

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

The report informed members that the Compliance Manual set out the powers, duties and responsibilities of officers in respect of the financial

services legislative and regulatory regimes relevant to MPF. Although the Pension Fund was not regulated by the Financial Conduct Authority (FCA) the manual incorporated, where appropriate, best practice as set out by the FCA and the codes of other professional bodies. The manual was subject to a review as required, but at least every three years. The existing Compliance Manual had been approved at Pensions Committee 22 January 2018. The revised Section 5 of the Compliance Manual was attached as an exempt appendix to the report.

Donna Smith, Head of Finance and Risk, informed members that the main changes to the manual were the updates required to reflect the new internally managed internal factor portfolio (IFP). Members of the Board discussed the Fund's Integrated Risk Management and its broad ranging considerations in determining its strategic asset allocation and it was;

Resolved – That the report be noted.

88 **POOLING UPDATE**

The Director of Pensions submitted a report that provided Board members with an update on pooling arrangements in respect of MPF and the Northern LGPS that had been considered by the Pensions Committee. The Director of Pensions informed members that since the previous update, the Operating Agreement between the three members of NLGPS had been concluded. It had been considered by the Standards and Constitutional Oversight Committee on 28 September and approved at Council on 14 October 2019.

The appendices to the report contained the Pooling update report taken to the Pensions Committee and at Appendix 2 the minutes of Shadow Joint Committee meeting 11 July 2019 and report Northern LGPS Shadow Joint Committee 26 September 2019. Appendix 2 to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members were informed that MPF had continued to work with its pooling partners to finalise governance arrangements for the Pool's Joint Committee. An underpinning element of this was a Northern LGPS inter-authority operating agreement between the three funds which was close to being concluded by the three authorities. The Fund's Governance Policy had been updated to reflect these changes.

The Chair of the Pensions Board thanked the Director of Pensions for bringing this detail to the Board and it was;

Resolved – That the report be noted.

89 **RISK REGISTER**

Members gave consideration to a report of the Director of Pensions that provided Board members with a copy of the Fund's Risk Register.

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

The report informed members that Risk management was an integral part of the Fund's business planning, policies and procedures. The Fund maintained a register of its principal risks and the controls and measures put in place to manage and mitigate them. The register was prepared in accordance with Wirral's Risk Management Policy.

Risk Management was a standing item on the monthly Fund Operating Group agenda. The register was reviewed formally by officers on a six-monthly basis but was updated immediately for any risks that were identified in the interim. The Risk Register was a standing item on the agenda for the Fund's Governance & Risk Working Party. The risks included in the register were principally in relation to administrative, financial and operational risks with investment and related actuarial risks addressed in the Funding Strategy Statement and Investment Strategy Statement.

The Board considered that it was positive that the Merseyside Pension Fund Risk Register was considered and reviewed by the Fund Operating Group, the Governance and Risk Working Party and the Pension Board. This facilitated consideration of risk by different Fund stakeholders with different perspectives.

Resolved – That the report be noted.

90 **WORKING PARTY MINUTES**

A report of the Director of Pensions provided Board members with copies of working party minutes held since the previous Pension Board meeting.

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

The Chair of the Board commented that it was good to note an increasing number of attendees at Working Party meetings. The Director of Pensions noted that dates of future IMWP meetings were included in the appendix

attached to Item 6 of the agenda – Training and Development opportunities. Members were encouraged to attend as observers and those wishing to attend were advised to contact Emma Jones, the Director of Pensions PA, in order that observers could be maintained at two members per meeting.

Resolved – That the report be noted.

91 **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.

92 **DRAFT PENSION BOARD REVIEW**

Members gave consideration to a report which had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its members during its fourth year (1 April 2018 to 31 March 2019). The report also includes a proposed Work Plan for 2019-20. 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).

Under Section 11.3 of its present Terms of Reference (approved by the Wirral Council at its meeting held on 10 December 2018) the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review had been prepared by the Independent Chair of the Board for consideration by the Board. Following consideration by the Board an approved version of the review would be presented to the February 2020 meeting of the Pensions Committee by the Independent Chair to the Pensions Committee.

The Chair noted his appreciation of the support that both he and fellow Board members had received from the Director of Pensions and officers during his time as Chair of the Pensions Board. He also acknowledged the positive working relationship both he and Board members had the benefit of with the former Councillor and Chair of the Pensions Committee Paul Doughty.

Resolved – That;

1 the Pension Board Review 2018-19 be received and approved.

2 the proposed Work Plan 2019-20 be approved.

93 **COMPLIANCE MANUAL**

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

94 **POOLING UPDATE**

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

95 **ADMIN KPI REPORT**

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

This item included a specific consideration of cyber security as it related to the Merseyside Pension Fund.

Resolved - That the exempt report be noted.

96 **RISK REGISTER**

The report on the Risk Register was exempt by virtue of paragraph 3.

97 **WORKING PARTY MINUTES**

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

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	LGPS UPDATE
REPORT OF:	HEAD OF PENSIONS ADMINISTRATION

1.0 EXECUTIVE SUMMARY

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

2.0 BACKGROUND AND KEY ISSUES

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

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

- 3.1 There are none arising from this report

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

- 5.1 There is a requirement for Members of the Pension Board to be kept up to date with legislative developments as part of their role in supporting the administering authority.

**REPORT
AUTHOR**

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX:**LGPS Update Report**

WIRRAL COUNCIL

PENSION COMMITTEE

3 FEBRUARY 2020

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

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an update on the 'McCloud Case', which relates to the transitional protections afforded to those members of public service pension schemes who were closest to retirement age when the schemes were reformed under the Public Service Pension Act 2013.
- 1.2 In addition, it updates Members on the High Court decision to transfer Equitable Life policies, (the legacy Additional Voluntary Contributions (AVC) provider for Merseyside Pension Fund) to Utmost Life and Pensions with effect from 1 January 2020.

2.0 BACKGROUND AND KEY ISSUES

'McCloud' Remedy

- 2.1 Members were informed at the Committee meeting dated 4 November 2019 (minute 37 refers) of the position in regard to the 'McCloud Case'; specifically, that the case will be returned to an employment tribunal for a decision as to the remedy for addressing the difference in member benefits.
- 2.2 On 15 November the Scheme Advisory Board (SAB) published an update to confirm that the LGPS will be dealt with separately to other public service schemes and that the remedy is likely to involve an extension of some form of the 'underpin'.

- 2.3 Technical discussions are expected to take place imminently between MHCLG and the SAB, with a consultation on proposed changes expected to follow. However, it is not expected that any remedy will be implemented before the end of the 2020-21 financial year.
- 2.4 As the remedy will be applied retrospectively, the Fund has communicated to employers the possibility that data such as part-time hours, service breaks, and the pre-2014 definition pensionable pay may need to be provided at a future date. Therefore, there is a requirement that employers have systems and procedures in place to collect and hold this data.
- 2.5 The SAB website provides an overview of the case along with FAQ and can be accessed from the following link:

<https://www.lgpsboard.org/index.php/structure-reform/mccloud-page>

Equitable Life transfers to Utmost Life and Pensions

- 2.6 Further to the update provided at the last committee meeting relating to the transfer of Equitable Life policies, I can confirm that the Fund as policy holder voted in favour of the transfer by the deadline of 30 October.
- 2.7 Scheme policy holders and 'eligible members' voted overwhelmingly in favour of the proposed changes. Consequently, the High Court was asked to approve the Scheme and Transfer on 22 November 2019.
- 2.8 Court approval to transfer the business of Equitable Life to Utmost Life and Pensions was received on 4 December 2019.

The Fund has updated members of the position by letter during December and provided information on the AVC products provided by Utmost Life and Pensions along with the default AVC Funds selected by MPF upon the advice of its professional advisors.

- 2.9 The next steps are:
- the 'uplift' will be applied to 'with-profits' policies as soon as practicable after 1 January 2020; and
 - 'with-profits' policies will be converted to unit-linked policies from 1 January 2020.

3.0 Relevant Risks

- 3.1 There is a risk that employers will be unable to provide the historic member data required to retrospectively assess the application of the 'underpin' to a larger cohort of members.

4.0 Other Options Considered

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 Resources will be required to assess whether the underpin is applicable for post-2014 retirements that were previously excluded from the underpin test.

The exact resource requirement will be dependent on the extent of the remedy and final legislation.

9.0 Legal Implications

- 9.1 There are none arising from this report.

10.0 Equalities Implications

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

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

11.0 Carbon Reduction and Environmental Implications

- 11.1 There are none arising from this report

12.0 Planning and Community Safety Implications

12.1 There are none arising from this report

13.0 Recommendation

13.1 That Committee Members note the report.

14.0 Reason/s for Recommendations

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

REPORT AUTHOR

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	2019 ACTUARIAL VALUATION
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a summary of the findings of the 2019 Actuarial Valuation.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework for the valuation process. They require an actuarial assessment of the Funds' assets against the current value of the pension liabilities, with a corresponding funding level declared every three years.
- 2.2 To undertake the valuation, the Actuary must have regard to the draft funding assumptions which have been updated following a formal consultation with all interested parties. The draft Funding Strategy Statement (FSS) has now been updated to take account of the feedback from employers.
- 2.3 The report outlines the 2019 whole Fund valuation results based on the draft FSS, alongside the final results from the 2016 valuation for comparison. The results will be subject to change as the valuation is completed for each employer. The final results will be disclosed within the 2019 valuation report.

3.0 RELEVANT RISKS

- 3.1 There is a risk that certifying unaffordable cash payments will lead to a number of employers exiting the Fund leaving unrecoverable debt.

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 this subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 None associated with this subject matter.

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?

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That Board Members note the report

14.0 REASON/S FOR RECOMMENDATIONS

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

REPORT Yvonne Murphy Head of Pensions Administration
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BRIEFING NOTES HISTORY

Briefing Note	Date
Interim Valuation 2018	29 October 2018

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WIRRAL COUNCIL

PENSION COMMITTEE

3 FEBRUARY 2020

SUBJECT:	2019 ACTUARIAL VALUATION
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members that the Actuary has completed the calculations for the 2019 actuarial valuation based on membership and cashflow data provided by the Fund as at 31 March 2019.
- 1.2 The purpose of the valuation is to set a funding plan that strikes a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2020 to 31 March 2023.
- 1.3 The emerging whole fund results presents a funding level of 102% with an associated surplus of £206m and an average employer future service cost of 17.1% of pay.
- 1.4 The position presented follows in-depth discussions between the Fund Actuary (Mercer), officers and constituent employers in relation to the core financial and demographic assumptions.
- 1.5 All individual employer results were provided to employers in November setting out their initial valuation results and the potential impact that the McCloud case could have on their results. The results are subject to consideration of employer covenant and where necessary further meetings may take place upon completion of the covenant review. Employers must notify the Fund if they intend to include/exclude the McCloud allowance within their contributions. Where employers do not respond to the Fund, the default will be that the McCloud contributions will be included.

- 1.6 In order to undertake the valuation, the Actuary must have regard to the draft funding assumptions which have been updated following a formal consultation with all interested parties, which commenced on 4 November with feedback requested by the end of November 2019. The draft Funding Strategy Statement (FSS) has been updated to take account of the feedback from employers.
- 1.7 All contributory policies and statutory statements to support the valuation process are covered under separate reports at this Committee meeting.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework for the valuation process. The regulations require an actuarial assessment of the Fund's assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years.

Valuation Results

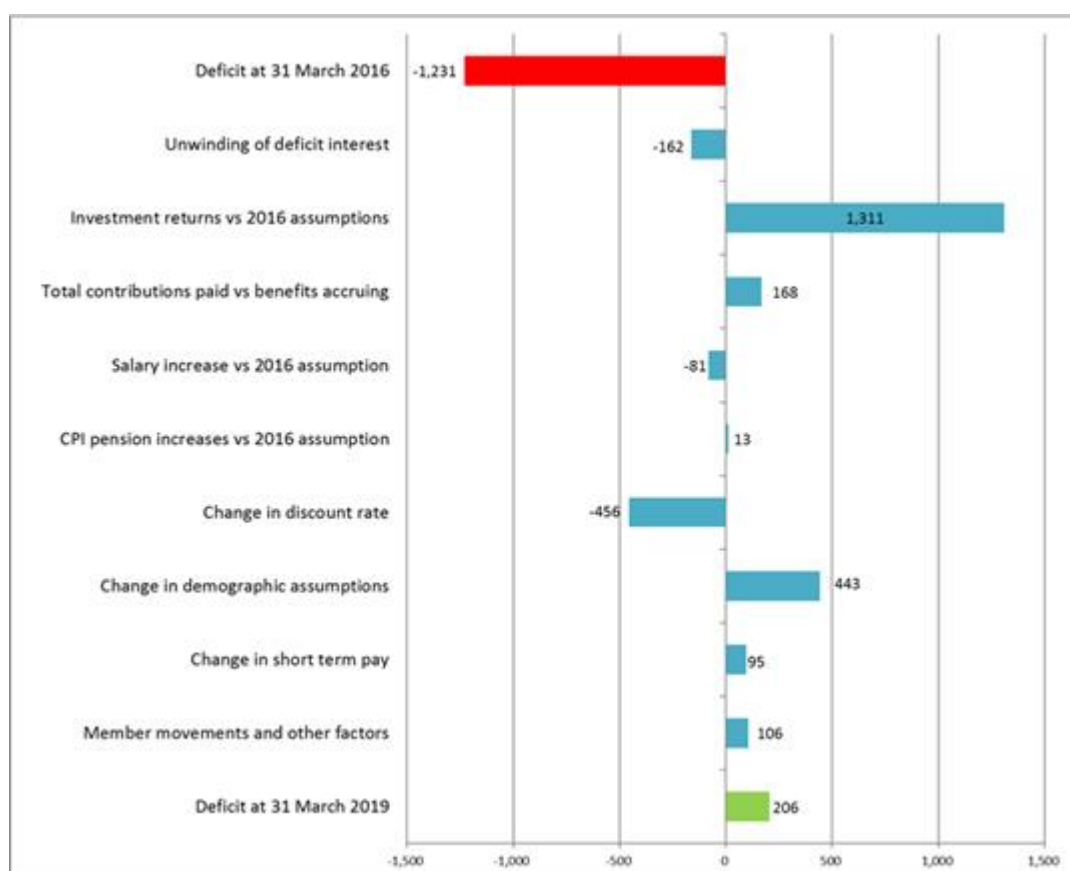
- 2.2 The whole Fund preliminary valuation results based on the assumptions set out within the draft FSS are set out below, alongside the final results from 2016 valuation for comparison purposes:

	2016	2019
MARKET VALUE OF ASSETS	£6,850m	£8,883m
TOTAL ACCRUED LIABILITIES	£8,081m	£8,667m
(DEFICIT) / SURPLUS	(£1,231)m	£206m
FUNDING LEVEL	84.8%	102%
AVERAGE EMPLOYER FUTURE SERVICE CONTRIBUTION RATE	15.1% of pay	17.1% of pay

These results will be subject to change as the valuation is completed for each employer. In particular, any changes to the assumption for short term pay and the impact of some weaker covenant employers being assessed on the medium or lower risk bucket assumptions. The final results will be disclosed within the 2019 valuation report.

Analysis of the change in position during the inter-valuation period is set out below and provides a commentary on the principal factors that influenced the improvement in the funding position:

Analysis of Change Since 2016



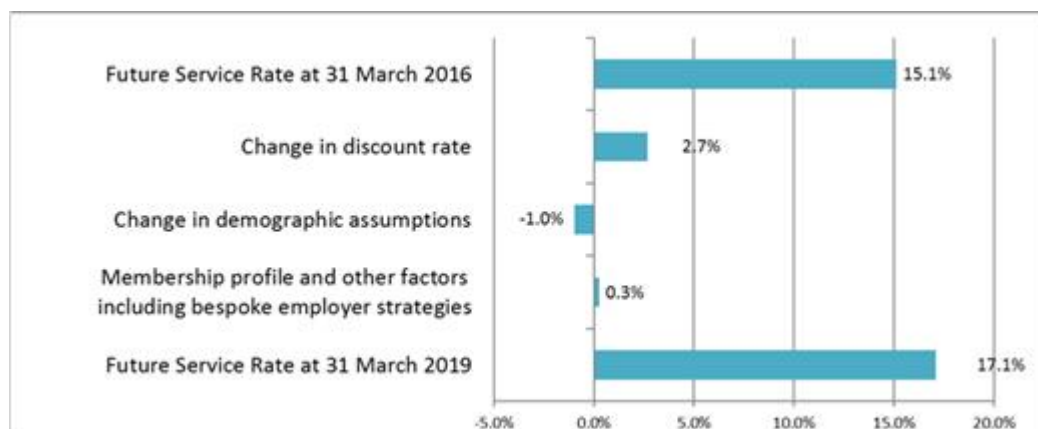
- a) **Positive investment returns** – The total investment return for the Fund was c32% for the three-year period to 31 March 2019. This was significantly higher than the expected return based on the assumptions adopted at 2016 (expected return of c13% for the 3 years to 2019) and so resulted in a gain of £1,311m for the Fund.
- b) **Contributions paid** – The total contributions paid into the Fund were higher than the cost of the benefits that were accrued by members, this therefore improved the funding position by £168m.
- c) **Change in discount rate** – The Actuary performed expected return analysis in order to determine the appropriate discount rate that should apply to the 2019 valuation. The discount rate is expressed as the “real” expected asset return above CPI. Due to the strong investment returns in recent years, the outlook is lower for returns in the future and therefore a lower “real” past service discount rate was adopted for the calculations (reducing from CPI plus 2% at 2016 to CPI plus 1.75% at 2019). This therefore increases the value of the liabilities and worsens the funding position by £456m.
- d) **Change in demographic assumptions** – The Actuary performed a review of the demographic assumptions as part of the 2019 valuation, based analysis of the Fund’s membership. The outcome was that there had been a slowdown in

the expected rate of improvement in life expectancy and so a revision to the life expectancy assumption was required. For example, the valuation assumes that a male aged 45 now will live to 87.4 compared to 89.8 in 2016. This change in assumptions has improved the funding position by £443m which has largely offset the impact of the change in the discount rate.

- e) **Member movements and other factors** – As well as membership changes over the 3 years, this item also includes the impact of the data quality project that the Fund has put significant resource into since 2016 (in order to improve the accuracy of the results for employers and to abide by tPR’s data quality requirements), overall these have improved the funding position by £106m.

Future Service Contributions

- 2.3 The whole Fund future service contribution rate has increased at this valuation from 15.1% to 17.1% of pensionable pay. The material factors which result in the rising costs of future accrual are set out below with commentary:



- a) **Change in discount rate** – As detailed above, the Actuary performed expected return analysis in order to determine the appropriate discount rate. Due to the strong investment returns in recent years, the outlook is lower for returns in the future. A lower “real” future service discount rate was adopted for the 2019 valuation (reducing from CPI plus 2.75% at 2016 to CPI plus 2.25% at 2019). As future service contributions relate to active members who will be in the Fund in the medium/long term (and hence their contributions invested over a longer period), the future service discount rate has reduced by more than the past service discount rate. The reduction in the “real” discount rate has increased the future service rate by 2.7% of pay.
- b) **Change in demographic assumptions** – As set out above, the Actuary performed a review of the demographic assumptions which has led to an update to the life expectancy assumption. As members are not expected to live as long as anticipated at 2016, this has led to a reduction in the future service rate of 1% of pay which has partially offset the impact of the change in discount rate.

Valuation Assumptions











2.4 The main financial assumptions adopted are as follows:

	Past Service % pa	Future Service % pa
Investment return (pre & post retirement)	4.15	4.65
Salary inflation	3.9	3.9
Pension increases	2.4	2.4

Demographic Assumptions Update

2.5 There have been changes made to the non-financial assumptions adopted in the previous valuation. As referred to above, Mercer has undertaken an analysis of its local authority client base, with particular focus on Merseyside Pension Fund's experience relating to mortality, ill health retirements and proportion of married members.

The findings were incorporated into the actuarial valuation calculations with the impact on the whole fund deficit and future service rate as follows:

Analysis	Effect on Deficit (Whole Fund)	Effect on Future Service Rate (Whole Fund)	Comment in relation to Fund
Life Expectancy			Updated to reflect results of the latest life expectancy analysis for the Fund. Termination life expectancy higher.
Ill-Health Retirement			General increase in numbers observed across LGPS. MPF at the higher end of observed trend. Maintain assumption.
Withdrawal			No material change so maintain assumption
Commutation			Slight trend upwards in terms of commutation but maintain assumption.
Proportions Married / Dependants			No material change so maintain assumption.

As shown above, the outcome was that there had been a slowdown in the expected rate of improvement in life expectancy and so a revision to the life expectancy assumption was required. The remaining assumptions had not changed materially and so they have not been updated from the 2016 valuation assumption.

Resultant Contributions

- 2.6 Employer contributions are calculated in two steps:
- a) Future service contributions (% of pay) - to cover the costs of future benefit accrual by active members and;
 - b) Deficit contributions or surplus offsets both expressed as £ amounts to arrive at the rate each employer is required to pay to attain the funding target
- 2.7 The contribution rates for individual employers reflect their own circumstances with regard to their employer status and strength of covenant, as these aspects determine the pace of funding in regard to the amount of deficit contributions payable and surplus offsets to future service contributions.
- 2.8 The notional recovery period used for the Fund as a whole is 3 years shorter than the period from the previous valuation, in order to meet the key objectives of maintaining solvency and long term cost efficiency. For the majority of the statutory employers, the recovery period has fallen from 19 years to 16 years. Subject to affordability and other considerations individual employer specific deficit recovery periods also apply and a 3-year reduction has also been applied. Where employers are in surplus at the valuation date consistent principles will apply. Taking account of all the employer specific factors, the implied average period across the Fund is 13 years.
- 2.9 All individual employer results were provided to employers in November setting out their initial valuation results and the potential impact that the McCloud case could have on their results. Employers must notify the Fund if they intend to include/exclude the McCloud allowance within their contributions. Where employers do not respond to the Fund, the default will be that the McCloud contributions will be included.
- 2.10 Throughout the valuation process, the Fund has engaged with the Merseyside Finance Directors on the key assumptions and policies to ensure full transparency in the process. During November, the Fund held a number of meetings with employers to discuss their results which included one-to-one sessions with the Fund Actuary with the focus on contribution requirements and affordability. Employers have been informed that the results are subject to consideration of their covenant and that meetings may take place once their covenant has been reviewed (where necessary).

- 2.11 As in the previous valuation, no advance allowance for early retirement (other than ill health) has been included in the calculations. Such retirements will be funded by additional payments (on top of the recommended employer's contribution rate) as and when they occur.
- 2.12 The final valuation position will be declared following approval of both the Funding Strategy Statement and Investment Strategy Statement. Individual employer contributions will be certified with the new rates taking effect from 1 April 2020.

3.0 RELEVANT RISKS

- 3.1 It is imperative that the Administering Authority takes a prudent view when negotiating the financial and demographic assumptions for the 2019 Triennial Valuation, in order to secure the long-term solvency of the Scheme.
- 3.2 However, to achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments will lead to a number of employers exiting the Fund leaving unrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATION

- 5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 None associated with the subject matter

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

- 8.1 In discussions with the major councils, the budgetary constraints faced by employers as a result of reduced public sector funding and the direct impact of increases to employer contributions on front line services has been a significant consideration.

8.2 Consequently Fund officers have explored various funding models and risk reduction strategies with employers to stabilise contributions which balance the administering authority's statutory responsibilities with regard to solvency and long term cost efficiency against employer affordability.

8.3 The funding position of the Fund will be kept under regular review during the period to the next formal triennial valuation as at 31 March 2022.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10 EQUALITIES IMPLICATIONS

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

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That Members approve the valuation basis and authorise the Fund Actuary to certify the final valuation report containing employers' contributions payable for the period 1 April 2020 – 31 March 2023.

14.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
AUTHOR**

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BRIEFING NOTES HISTORY

Briefing Note	Date
Interim Valuation 2018	29 OCTOBER 2018

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	FUNDING STRATEGY STATEMENT
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This final proposed Funding Strategy Statement is attached as an appendix to this report. It incorporates the proposals on the funding strategy. There will be minor drafting changes between now and the statutory deadline of 31 March 2020

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Local Government Pension Scheme (LGPS) regulations provide a statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.
- 2.2 A consultation with employers regarding the updates to the draft FSS took place in November 2019. To assist employers, the Fund Actuary communicated the key FSS changes at employer meetings during November. Once approved, the FSS will be refined and finalised by the Fund Officers in conjunction with the Fund Actuary. The deadline for finalisation of the draft FSS is 31 March 2020

3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATION

- 5.1 A consultation with employers on the key changes to the FSS took place during November 2019.

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 None associated with this subject matter.

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 none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 12.1 There are none arising from this report

13.0 RECOMMENDATION

- 13.1 That Board Members note the report

14.0 REASON/S FOR RECOMMENDATIONS

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

**REPORT
AUTHOR**

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APPENDICES

Funding Strategy Statement Report
Funding Strategy Statement (Draft)

BRIEFING NOTES HISTORY

Briefing Note	Date
FUNDING STRATEGY STATEMENT	Draft 29 October 2018

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WIRRAL COUNCIL

PENSION COMMITTEE

3 FEBRUARY 2019

SUBJECT:	FUNDING STRATEGY STATEMENT
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	YES

1.0 EXECUTIVE SUMMARY

- 1.1 The LGPS Regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The final proposed Funding Strategy Statement is attached as Appendix 1. It incorporates the proposals on the funding strategy. There will be minor drafting changes between now and the statutory deadline of 31 March 2020.
- 1.2 A draft FSS was sent out to employers as part of the consultation process during November 2019 and feedback was requested. In order to assist employers with the consultation, the Fund Actuary communicated the key FSS changes at employer meetings in November.
- 1.3 A number of comments were received from employers following the consultation, and the FSS has been updated to reflect the comments made, particularly in relation to the policy on the prepayment of contributions. A summary of the comments and changes made are set out within this report.
- 1.4 The principal decision areas for the Committee are:
- The actuarial assumptions, deficit recovery plans and updated policies;
 - Allowance in the FSS for the McCloud judgment; impact plus commentary on the considerations around the Cost Management Process in light of the judgment;
 - The amendments regarding the policy on prepayment of employer contributions for employers and the operation of the policy.
- 1.5 The Fund officers request that the Committee delegate the refinement and finalisation of the FSS before the deadline of 31 March 2020.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.
- 2.2 The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement.
- 2.3 A draft FSS was prepared and sent to employers as part of the consultation (see from section 2.4 for employer comments). The FSS incorporated the following updates:
- a) Review of the discount rate – An expected return analysis has been performed to determine the appropriate discount rate that should apply to the 2019 valuation. The discount rate is set to meet the primary objectives of the Fund which are to maintain solvency and long-term cost efficiency as per the Regulations and guidance in force.
 - b) The discount rate is expressed as the “real” expected asset return above CPI, given the benefits (i.e. liabilities) predominately increase with CPI increases. Given the current market and economic outlook there is an expectation of lower future real returns in the longer term. For the principal assumptions affecting the major employers we are proposing to reduce the expected level of real return above CPI for past service (benefits accrued up to the valuation date) by 0.25% p.a. from CPI +2% p.a. at the 2016 valuation to CPI+1.75% p.a., to maintain an appropriate level of prudence in the discount rate to meet the primary objectives. The discount rate to determine the future service contributions (benefits to be earned by current members in the future) has also been reduced from CPI +2.75% p.a. at the 2016 valuation to CPI+2.25% p.a. For those employers whose assets are invested in the medium risk investment strategy, a further reduction to the discount rates (for both past and future service) has been made.
 - c) Updates to the life expectancy assumptions following analysis performed on the Fund’s membership. The analysis indicates that whilst life expectancy is still increasing, the trend of improvement in longevity is beginning to taper off and this has been incorporated into the assumptions.
 - d) The notional period to recover a deficit (or run off a surplus of assets over liabilities) used is generally 3 years shorter than the period from the previous

valuation. For the majority of the statutory employers, the recovery period has reduced from 19 years to 16 years. This is equivalent to a continuation of the 2016 recovery plan end date for most employers to achieve a 100% solvency or funding level. This would apply to employers, subject to covenant, risk and affordability considerations, and has been incorporated into the assumptions. For individual employers, their circumstances can mean a different approach is taken resulting in a bigger or smaller change to the period. This is dependent on the overall risk and affordability assessment for that employer with a view to maintaining contributions at an acceptable level in order to protect taxpayers.

- e) The termination policy will require further technical review by the Fund Actuary regarding the appropriate life expectancy and inflation assumptions due to changes after the valuation date. Drafting notes have been included to highlight where changes may still be made prior to finalisation.
- f) Updates to the FSS and the Fund policies included within it to allow for the potential Regulation changes as follows:
 - **The Cost Management Process** - The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below. Wording to set out the background of this issue has been included within the FSS.
 - **McCloud judgment** - These are age discrimination cases brought in respect of the firefighter and judges' schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud has been quantified for each employer and the approach has been set out within the FSS. This is in line with the guidance from the Scheme Advisory Board. This has been communicated to employers alongside their valuation results to ensure that they are aware of the budget risk and are able to make provisions accordingly.

2.4 A consultation with employers regarding on the updates to the draft FSS took place during November 2019. In order to assist employers with the consultation, the Fund Actuary communicated the key FSS changes at employer meetings in November. Following this, a number of comments/queries were received from employers:

- A number of employers commented that the improvement in funding positions that have arisen at 2019 (resulting in reduced deficit contribution requirements) have provided them with an opportunity to prepay future service contributions, in exchange for an annual £ saving. This is to assist them with managing their budgets.
- An employer commented on the treatment of employers upon termination e.g. the circumstances when the assets and liabilities would be subsumed by the guarantor. They raised the possibility of including this wording within the Admission Agreement at the point that the employer enters the Fund.
- An employer asked further questions about the likelihood of the McCloud costs varying from the estimate provided. They also asked for clarity on whether they have to pay the additional cost into the Fund or is there an alternative available.
- An employer requested further clarity on recovery periods within the FSS for employers in surplus.
- The draft for consultation did not include the proposed changes to the investment strategy as the review had not been completed at that time. An employer asked the Fund to provide the strategy.

2.5 The Fund has replied to all queries from employers. As a result of the queries raised within the consultation, the Fund has updated the wording on prepayment of contributions.

The prepayment of future service contributions is a pilot policy that the Fund intends to introduce for a small number of larger employers. The intention of the pilot policy is to assess whether it would be practical (both administratively and in terms of treasury management) to allow all employers the option of prepaying their future service contributions at the start of the year in order to achieve a £ saving. The Fund must also ensure compliance with Regulations and Auditors. As this is a pilot, the full policy has not been incorporated into the FSS.

2.6 Once the FSS has been approved by the Committee, it will be refined and finalised by the Fund Officers in conjunction with the Fund Actuary to allow for the final valuation results and the remaining drafting notes set out within the document. The deadline for finalisation of the draft FSS is 31 March 2020.

3.0 RELEVANT RISKS

- 3.1 The actuarial valuation is a vital Governance tool to control the risks relating to the funding position and employer contributions requirements which have a material impact on budgets and local services. The funding strategy (along with the investment strategy) used to inform the actuarial valuation is a key determinant of the overall financial risk levels in the Fund. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATION

- 5.1 A consultation with employers on the key changes to the FSS took place during November 2019.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 None associated with the subject matter

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

- 8.1 Further analysis by the Fund Actuary and discussion with Fund Officers is required to determine the appropriate assumptions to adopt within the termination policy.

9.0 LEGAL IMPLICATIONS

- 9.1 There are none arising from this report

10 EQUALITIES IMPLICATIONS

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

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

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 The Committee approves the draft Funding Strategy Statement.
- 13.2 That Committee delegates the refinement and finalisation of the draft FSS by 31 March 2020 to officers.

14.0 REASON/S FOR RECOMMENDATION/S

- 14.1 It is the responsibility of the Pension Committee to agree the Funding Strategy.

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BRIEFING NOTES HISTORY

Briefing Note	Date
FUNDING STRATEGY STATEMENT	Draft Funding Strategy Statement 29.10.2018

FUNDING STRATEGY STATEMENT

MERSEYSIDE PENSION FUND

[DATE]

Wirral Metropolitan Borough Council

As approved by Pension Committee, [DATE]

DRAFT

EXECUTIVE SUMMARY

It is the fiduciary responsibility of the Administering Authority (Wirral Metropolitan Borough Council) to ensure that the Merseyside Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the Merseyside Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Merseyside Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Merseyside Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.



MEETING THE FUND’S SOLVENCY OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities. The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for this objective to be reasonably achieved in the long term at each valuation.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different

periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations, guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives.

The level of prudence has been quantified by the Actuary to provide contingency and protection against future adverse experience in the long term. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions e.g. deficit recovery period must have regard to this requirement which means a level of prudence is needed. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.



DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

In the case of employers whose assets are less than their liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest

cost. This will be periodically reviewed depending on the maturity profile of the scheme.

Subject to affordability considerations and individual employer circumstances where a deficit exists and depending on the level of deficit, a guiding principle will be to maintain the total contributions at the prescribed monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Contributions will only be reduced if the Fund deems this reasonable based on covenant and other risk factors e.g. if the employer moves into a different investment strategy. Full details are set out in this FSS.

The notional period used to determine the secondary contribution rate (i.e. the adjustment to contributions in relation to deficit or surplus) for the Fund as a whole is 3 years shorter than the period from the previous valuation. For the majority of the statutory employers, the recovery period has fallen from 19 years to 16 years. Subject to affordability and other considerations individual employer specific deficit recovery periods would also be expected to reduce to the same extent at this valuation i.e. 3 years. Where employers are in surplus at the valuation date consistent principles will apply i.e. the period will be related to the covenant of the employer which may result in no change in the period compared to the last valuation.

Taking account of all the employer specific factors, the implied average period across the Fund is 13 years.

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer may be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer. Equally certain employers will be able to align their contributions changes with their financial year if this does not end on 31 March.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Otherwise, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. Where employers do not confirm whether they will opt to include the estimated costs in their certified contributions, the default will be for the costs to be included in their contributions from 1 April 2020.



ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in Appendix A to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived from the expected return on the Fund's assets based on the long-term strategy set out in its Investment

Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations of the returns on the Fund's assets and the level of inflation in the long term. Also, the Fund has implemented various risk management strategies since the last valuation and the volatility of returns is expected to fall. This is also taken into account by the Actuary when proposing the assumptions leading to a reduction in the level of prudence at this valuation.

In addition, the Fund implemented a choice of "investment strategy" buckets to offer to employers with effect from 1 April 2017, which exhibit lower investment risk and average expected return than the current whole fund strategy. Further details are provided in the separate employer booklet. If an employer is deemed to have a weaker covenant than others in the Fund, or it would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into a different investment strategy to protect the Fund as a whole.

The key financial assumptions are set out below:

Employers within the Higher Risk Investment Strategy Bucket

Taking into account the above, it is proposed that the real return over CPI inflation for determining the past service liabilities is 1.75% per annum and for determining the future service ("Primary") contribution rates is 2.25% per annum at this valuation.

Employers within the Medium Risk Investment Strategy Bucket

Taking into account the above, it is proposed that the real return over CPI inflation for determining the past service liabilities is 1.5% per annum and for determining the future service ("Primary") contribution rates is 2.0% per annum at this valuation.

Employers and Orphan Liabilities within the Lower Risk Investment Strategy Bucket

For any ongoing employers in the lower risk investment bucket, the discount rate is linked to the yield available on the lower risk assets within the strategy, less any appropriate margins to allow for asset default, reinvestment risk and expenses – in particular under the termination policy when certain employers terminate participation in the Fund. This is updated on a regular basis when assessing the termination position for outgoing employers.

The demographic assumptions under all buckets are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employer's terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).



EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (based on the appropriate investment bucket strategy) when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment bucket the employers' assets are in. In addition, the asset shares may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances and the basis of participation reflects the nature and funding of the service provision. The approach taken is set out in our separate admissions policy document. This can be found on the Fund's website: <https://mpfmembers.org.uk/pdf/admissions.pdf>

Examples of new employers include:

- Mandatory Scheme Employers - for example new academies
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's

liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate at termination linked to the lower risk investment strategy and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of completion of the cessation by the Actuary. This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a **guarantor** who would subsume the liabilities, the policy is that any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor along with all remaining assets and liabilities.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit. In the event of parties unreasonably seeking to crystallise the exit credit on termination the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

4. Insurance arrangements

The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The captive arrangement has been considered when setting the employer contribution rates for the eligible employers. More details are provided in **Appendix D**.

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1

INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Merseyside Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in the relevant regulatory provisions, the funding regime or the ISS.

BENEFITS

The benefits provided by the Merseyside Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Merseyside Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with final salary related benefits relating to membership up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER / EMPLOYEE CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution). Employers may also elect to make lump sum prepayments of contributions which could result in a cash saving over the valuation certificate period.

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits/insurance premium together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances such as; its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

The contribution payable is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, including the disparate investment buckets, it must remain a single strategy for the Administering Authority to implement and maintain.

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND 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.
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee and Local Pensions Board), the individual employers and the Fund Actuary, details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, additional pension contracts, early retirement strain,
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context

- notify the Administering Authority promptly of any changes to membership which may affect future funding
- understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in employer paying higher contributions than otherwise would be the case if the data was of high quality
- understand the pensions impacts of any changes to their organisational structure and service delivery model.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their FSS, ISS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice to the Administering Authority and valuations on the termination of admission agreements including exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise the Administering Authority on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

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SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation.

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits / ill health premiums and administration costs.
- the Secondary rate: a schedule of % of pay adjustments or lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments)

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Employers may also elect to make lump sum prepayments of contributions which could result in a cash saving over the valuation certificate period.

DEFICIT RECOVERY CONTRIBUTIONS

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable.

The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength. In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account; the size of the funding shortfall; the business plans of the employer; the assessment of the financial covenant of the Employer, and security of future income streams; and any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The key principles when considering deficit recovery or the run off of any surplus are as follows:

- Subject to consideration of affordability, as a general rule, the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit payment schedule will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted. The average recovery period adopted by all employers will be set out within the Actuary's report. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.
- For any employers assessed to be in surplus, the recovery period will initially be determined in line with the recovery period from the preceding valuation although this will depend on covenant and basis of participation (subject to a total employer contribution minimum of zero). Where an employer is deemed to have a weaker covenant an alternative recovery period may be agreed at the discretion of the Administering Authority. This will also consider maintaining stability of contribution requirements at future valuations.
- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, depending on affordability of contributions as determined by the administering authority and the assessment of an individual employer's covenant strength. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
- As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, , although employers will still be expected to at least cover expected interest costs on the deficit.
- It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

- For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Other considerations in relation to specific employers are as follows:

- LEA schools and certain other employers within the Fund have been grouped with the respective Council.
- Academies are treated as separate employers but at inception any past service deficit is allocated on an equitable basis consistent with the relevant LEA schools.
- Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- Any stabilisation methods requested by the contractor will need to be agreed with the original Scheme Employer before being implemented.
- For admission bodies participating from 1 April 2017 who do not have a guarantor of sufficient financial standing e.g. a public authority based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination and bond requirements will be on a lower risk investment strategy. The employer's assets will then be deemed to be invested in these lower risk assets and be credited with the returns derived from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.
- For employers that do not have a financial year end of 31 March 2020 (e.g. if they instead have a 31 July 2020 year-end), the Fund can, at the employer's request allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2020 in this example).

Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

EMPLOYERS EXITING THE FUND

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit.

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who **have a guarantor** participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of completion of the cessation by the Actuary (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor along with all remaining assets and liabilities.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystallise the exit credit on termination the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

The policy for employers who **do not have a guarantor** participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using a discount rate based on the lower risk investment strategy and a more prudent life expectancy assumption.

The termination policy is set out in Appendix B.

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

EMPLOYERS WITH NO GUARANTOR OR BOND IN PLACE

For those employers (who are not Scheduled bodies) and who have no guarantor or bond arrangements in place, a higher funding target will be adopted. The contribution rate for these employers will be determined to target a funding position of 120% for the liabilities of the current active membership. The funding target for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in exceptional circumstances by agreement with the Fund, through instalments over a period not exceeding 5 years or if less, the remaining period of the body's membership of the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. To the extent that a strain does occur, this will serve to increase the deficit at the next actuarial valuation (with the exception of those employers that take part in the captive arrangement who will be immunised against the strain in return for the premiums paid). However, where an employer exits the Fund in the inter-valuation period the outstanding ill health retirement strain costs will be included when the Actuary completes the termination assessment.

FUNDING FOR DEATHS IN SERVICE AND RETIREMENT

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. As for ill health cases, any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer exits the scheme and any necessary adjustment will be taken into account when the Actuary determines the termination position.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS, which can be found here:

[Link to ISS to be inserted]

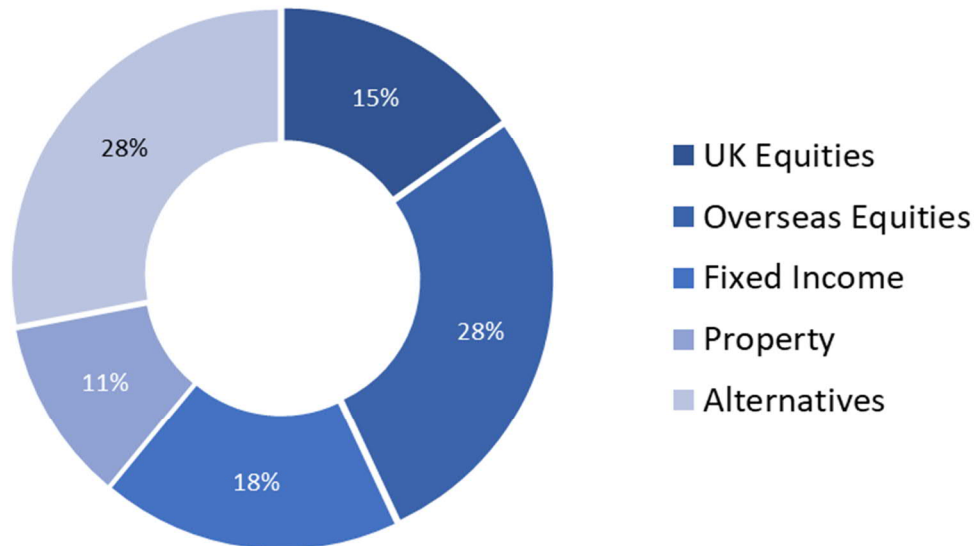
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of minus 1% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 63%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance. The overall strategic asset allocation is set out in the Investment Strategy Statement.

The current investment strategy is:



Further information on the investment strategy can be found in the ISS.

Based on the investment strategy above and the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 2.7% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance. This margin however, has been reduced to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of risk management techniques which cover the total Fund and/or specific employers. In particular:

- **Equity Protection** - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).
- **Liability Driven Investments (LDI)** – the Fund has implemented an LDI strategy in order to hedge part of the Fund's assets against changes in certain employer or orphan liabilities.

The principal aim of these risk management techniques is to effectively look to provide more certainty of real investment returns vs CPI inflation and/or protect against volatility in the termination position. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. Further details of the framework will be included in further updates of the FSS and ISS.

INVESTMENT STRATEGY BUCKETS

The Fund has implemented a choice of “investment strategy” buckets for employers with effect from 1 April 2017. These are called:

- Higher risk bucket
- Medium risk bucket
- Lower risk bucket

The current Fund investment strategy will apply to the “higher risk bucket”. The “medium risk bucket” and “lower risk bucket” will give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket’s investment strategy generally has a lower weighting to growth assets than the higher risk strategy and therefore a lower expected volatility of returns. This strategy will vary over time depending on the returns on the different portfolios and will be reviewed and rebalanced in the future as part of a review of the investment strategy.

The lower risk bucket will be made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

The strategic asset allocation for all buckets is set out in the Investment Strategy Statement or the separate employer booklet covering the differential strategies. Any employer’s whose strategy deviates on a bespoke basis will be separately notified.

The choice of bucket is reflected in the relevant employer’s asset share, funding basis and contribution requirements.

If, based on the assessments carried out by the Administering Authority, the employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move the employer (typically following discussions with the employer) into the medium or lower risk investment strategy to protect the Fund as a whole and therefore taxpayers. Note where an employer moves into a different investment bucket there may be costs associated with a transition of assets. *The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share including on termination of participation in the Fund.*

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IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment bucket) is kept under regular review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These, in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are administered properly, can help control exposure to this demographic risk. The Fund’s ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix D).

Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. More detail on how the Fund is implementing the captive insurance for ill health costs is set out in **Appendix D**.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments. The draft FSS was finalised at the Committee’s meeting on [xxx 2020] after the Fund and the Pension Board reviewed the feedback received from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

PENSIONS COMMITTEE

Wirral Metropolitan Borough Council, as the Administering Authority for Merseyside Pension Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of fifteen voting representatives and Wirral Council, as the Administering Authority, nominates ten members, each of the other four local councils nominate a member and a representative of the remaining employers is elected by ballot. There are three non-voting members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the trade union and non-council representatives, Member changes to Committee are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 times a year and has set up an Investment Monitoring Working Party which meets at least 4 times a year to monitor investment performance and developments. A Governance and Risk Working Party has also been established which meets twice a year to discuss current and emerging risks and measures to mitigate and control risk. The Committee has delegated powers to the Director of Pensions for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director of Pensions and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two-way flow of information.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance issued by the Scheme Advisory Board.

Membership

The Pension Board is comprised of four voting employer representatives and four voting scheme member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity.

Member representatives are scheme members of Merseyside Pension Fund and have the capacity to represent scheme members of the Fund

The Pension Board is chaired by an independent non-voting member and all representatives have significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the scheme regulations and other legislation relating to the governance and administration of the scheme; and
- any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

- the rules of the scheme and the law relating to pensions, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

The Council considers that the Pension Board is providing oversight of the administration and governance of the Pension Fund and does not have a decision making role in the management of the Fund but makes recommendations to assist in ensuring compliance with its statutory responsibilities.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed from the following link:

<http://mpfund.uk/pensionboard>

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MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, the statement will be reviewed on an annual basis as a matter of course. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance here which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Otherwise, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. Where employers do not confirm whether they will opt to include the estimated costs in their certified contributions, the default will be for the costs to be included in their contributions from 1 April 2020.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate for the higher risk and medium risk buckets have been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate, consideration has been given to the returns in excess of CPI inflation (as derived below).

Higher Risk Investment Strategy Bucket

For employers in the higher risk investment bucket the discount rate at the valuation has been derived based on an assumed return of 1.75% per annum above CPI inflation i.e. a real return of 1.75% per annum and a total discount rate of 4.15% per annum.

Medium Risk Investment Strategy Bucket

For employers in the medium risk investment bucket the discount rate at the valuation has been derived based on an assumed return of 1.5% per annum above CPI inflation i.e. a real return of 1.5% per annum and a total discount rate of 3.9% per annum.

Lower Risk Investment Strategy Bucket

For any participating employers in the lower risk investment bucket, the discount rate is linked to the yield available on the lower risk assets within the strategy, less any appropriate margins to allow for asset default, reinvestment risk and expenses – in particular under the termination policy when certain employers terminate participation in the Fund. This is updated on a regular basis when assessing the termination position for outgoing employers.

At the valuation date the discount rate used for terminations was CPI inflation less 0.1% per annum to determine the liabilities.

As well as a formal review at each valuation the discount rate for all buckets will be reviewed from time-to-time, based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum,

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

In addition to the long term salary increase assumption, allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied depending on employer type for each year from the valuation date up to 31 March 2023. These will be notified to each employer as part of the communication of their results but are subject to a minimum of 2% per annum. Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum.

The mortality before retirement has also been reviewed based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

Higher risk investment bucket

For employers in the higher risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Medium risk investment bucket

For employers in the medium risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

Lower risk investment bucket

For participating employers with active members in the lower risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are the same as the financial assumptions used to calculate the past service liabilities.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (taking account of the respective investment buckets) unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment bucket the employers' assets are in.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2019 ACTUARIAL VALUATION

Long-term yields		
	Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions		
	Investment return/Discount Rate (Higher Risk Bucket)	4.15% p.a.
	CPI price inflation	2.40% p.a.
	Short Term Salary Increases	Varies by employer - 4 year period to 31 March 2023 as noted above
	Long Term Salary increases	3.90% p.a.
	Pension increases/indexation of CARE benefits	2.40% p.a.
Future service accrual financial assumptions		
	Investment return/Discount Rate (Higher Risk Bucket)	4.65% p.a.
	CPI price inflation	2.40% p.a.
	Short Term Salary Increases	Varies by employer - 4 year period to 31 March 2023 as noted above
	Long Term Salary increases	3.90% p.a.
	Pension increases/indexation of CARE benefits	2.40% p.a.

LIFE EXPECTANCY ASSUMPTIONS

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	124% S3PMA_CMI_2018 [1.75%] 104% S3PFA_M_CMI_2018 [1.75%]
	Dependant	164% S3PMA_CMI_2018 [1.75%] 108% S3DFA_CMI_2018 [1.75%]
	Ill Health	150% S3IMA_CMI_2018 [1.75%] 145% S3IFA_CMI_2018 [1.75%]
	Future Dependant	159% S3PMA_CMI_2018 [1.75%] 127% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	131% S3PMA_CMI_2018 [1.75%] 106% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	142% S3IMA_CMI_2018 [1.75%] 157% S3IFA_CMI_2018 [1.75%]
Deferred	All	158% S3PMA_CMI_2018 [1.75%] 123% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	168% S3PMA_CMI_2018 [1.75%] 132% S3DFA_CMI_2018 [1.75%]

Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	20.8	24.4
Actives aged 45 now	22.4	26.3
Deferreds aged 45 now	21.0	25.3

Other demographic assumptions are set out in the Actuary's formal report

APPENDIX B - TERMINATION POLICY

EXITING THE FUND

TERMINATION ASSESSMENT OF AN EMPLOYER'S RESIDUAL PENSION OBLIGATIONS AND METHOD TO CALCULATE BOND/ FINANCIAL GUARANTEES

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically, this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

[Where it may be appropriate to use a more cautious basis, the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets which make up the lower risk investment "bucket".

For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the higher or medium risk investment strategy bucket. The Administering Authority retains the discretion to adopt a different approach for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2.25% per annum for males and females.]

[Drafting note: Approach to updating this to allow for post valuation date factors and for further reviews between valuations to be considered before document finalised.]

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation.

In summary, depending on the employer type, participation basis and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements for certain admitted bodies or designating bodies:-

Assessing the final termination liabilities using assumptions consistent with the most recent

valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer's liabilities.

1. Assessing the final liabilities using a discount rate which is linked to a low risk income generating investment strategy which make up the lower risk investment "bucket". As part of this assessment the Actuary will use a deduction from the discount rate to reflect a reasonable estimate of the potential asset default and reinvestment risk associated with the asset strategy, the associated costs of termination and any other reasonable prudential margins that are appropriate based on the advice of the Actuary. This will be reviewed from time-to-time dependent on market conditions. In addition, the Actuary will apply the more prudent mortality [and inflation] assumption[s] as described above. There may be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share.

[Drafting note: Approach to updating this to allow for post valuation date factors and for further reviews between valuations to be considered before document finalised.]

2. Assessing the final liabilities using a discount rate which is based on a "minimum risk" approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities and a more prudent mortality assumption as above. Typically, this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities.

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of admission as follows:-

(I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of completion of the cessation by the Actuary (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place

and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystallise the exit credit on termination the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium or low risk asset bucket. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

(II) NON-CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN THE FUND

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

(III) ADMISSION BODIES WITH NO GUARANTOR IN THE FUND

These are cases where the residual liabilities would be "orphaned" within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although the approach in 3. above could apply at the discretion of the Administering Authority.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. Where the approach is modified, a separate schedule will be provided to that employer. Setting out the approach to adopt and this will be done using consistent principles.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (AS AMENDED BY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018)

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"), a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –
 - a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 the revised contributions due from the body which is the related employer in relation to that admission body, and
 - b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.

APPENDIX C – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating

Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX D – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENT

For certain employers in the Fund, following discussions with the Fund Actuary and after considering potential alternative insurance arrangements, a captive insurance arrangement was established by the Administering Authority to cover ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2017.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2020/23 is 1% of pensionable pay per annum..
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will be included in the captive are Academies, Community related Admitted Bodies, Contract related Admitted Bodies (where the guarantor is also in the captive arrangement) and Designating/Resolution Bodies. These employers will be notified of their participation. New employers entering the Fund who fall into this category will also be included.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

APPENDIX E - GLOSSARY OF TERMS

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Corporate Bond Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Contingent Assets: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets.

Discount Rate: the rate of interest used to convert a future cash amount e.g. a benefit payment occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate (Primary Rate): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Equity Protection: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Hedging: a strategy that aims to reduce funding volatility using Liability Driven Investment (LDI) or other techniques. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

Hedge ratio: The level of hedging in place as a percentage of the liabilities and can be 0% to 100%. This can be in relation to interest rates, inflation rates or real rates of return.

Investment Bucket: this describes a bespoke investment strategy which applies to one or more employers and is dependent on the liability and risk profile.

Ill Health Captive: this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

Solvency/Funding Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the Administering Authority will manage employer's contributions to the Fund.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Past Service Liabilities: this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% of cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

[Drafting note: To be updated before final document agreed.]

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	REVISED INVESTMENT STRATEGY STATEMENT
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides members with details of the proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Regulations 7(1) of the LGPS Investment Regulations 2016 requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The authority must review and if necessary, revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.
- 2.2 In conjunction with the Actuarial Valuation and Funding Strategy Statement (the subject of separate reports on this agenda), the investment strategy is reviewed with the Funds advisors to ensure that the Funds asset allocation will deliver investment returns over the long term to secure the long-term solvency of the Fund.

3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATION

- 5.1 Employers have been consulted on the revised FSS and investment strategy.

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 ENVIROMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That Board Members note the report

14.0 REASON/S FOR RECOMMENDATIONS

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

**REPORT
AUTHOR**

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APPENDICES

Revised Investment Strategy Statement

BRIEFING NOTES HISTORY

Briefing Note	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

3 FEBRUARY 2020

SUBJECT:	REVISED INVESTMENT STRATEGY STATEMENT
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation. Approval is sought for the revised Investment Strategy and the draft Investment Strategy Statement which has been revised in conjunction with the Funding Strategy, the subject of a separate report on this agenda.

2.0 BACKGROUND AND KEY ISSUES

Statutory Background

- 2.1 Regulation 7(1) of the LGPS Investment Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.
- 2.2 The Investment Strategy Statement required by Regulation 7 must include:-
- a) A requirement to invest money in a wide variety of investments;
 - b) The authority's assessment of the suitability of particular investments and types of investments;
 - c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 2.3 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.
- 2.4 The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 2.5 The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.
- 2.6 The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

Investment Strategy

- 2.7 In conjunction with the Actuarial Valuation and Funding Strategy Statement (the subject of separate reports on this agenda), investment strategy is reviewed with the Fund's advisors to ensure that the Fund's asset allocation will deliver investment returns over the long term to secure the long-term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities whilst taking an appropriate level of risk.
- 2.8 Members will note from the Actuarial Valuation and Funding Strategy Statement reports that MPF's overall funding position has improved significantly from 84.6% at March 2016 to 102% at March 2019 – although funding levels will vary from employer to employer. Following extensive consultation with the actuary, the investment consultant, independent advisors and employers, it is proposed to 'lock in' some of the gains achieved and, over the next two to three years, reposition the portfolio towards an investment strategy providing greater capital stability. In general terms, less risky assets provide lower returns and, therefore, will reduce the actuary's assumptions of future asset growth thereby increasing the cost of the Scheme. In revising the strategic asset allocation, officers have sought to strike a balance between risk reduction and affordability.
- 2.9 As a further measure, Members will be aware from reports last year that the Fund put in place equity downside protection strategies and the intention is that, subject to funding level and market conditions, these will be extended as they reach maturity.
- 2.10 The ISS has also been revised to reflect the medium and lower risk asset strategies available to **employers (section)**.
- 2.11 Consistent with pooling guidance and MPF's objectives to deliver improved performance and cost savings, the Fund continues to seek opportunities to

increase the proportion of assets managed by the internal investment team. The next area that has

3.0 RELEVANT RISKS

- 3.1 The ISS is a key component of the Fund's risk framework and section addresses the requirements of section (7)(c) of the LGPS Investment Regulations.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options have been considered.

5.0 CONSULTATION

- 5.1 Employers have been consulted on the revised FSS and investment strategy.

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 ISS documents the Fund's Investment Strategy which has a fundamental impact on the investment performance of the Fund, a key influence on employer contributions.

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 revisions to the Investment Strategy Statement and the revised investment strategy.
- 13.2 That Members note and approve the extension by officers of equity downside protection strategies consistent with the Fund's investment strategy.

14.0 REASON/S FOR RECOMMENDATION/S

- 14.1 There is a statutory requirement for the Fund to prepare and maintain an Investment Strategy Statement.

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APPENDICES

Revised Investment Strategy Statement

BACKGROUND PAPERS/REFERENCE MATERIAL

Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement Department for Communities and Local Government September 2016

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pension Committee	March 2019
Pension Committee	July 2019

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A decorative graphic on the left side of the page consisting of a grid of blue squares. The grid is composed of many small squares, some of which are missing, creating a pattern that resembles a stylized 'M' or a series of vertical bars of varying heights. The squares are arranged in a way that they appear to be receding into the distance, creating a sense of depth.

Merseyside Pension Fund **Investment Strategy Statement**

Introduction

This Investment Strategy Statement has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential “downside” effects of financial market volatility.

Investment Strategies

The Fund has implemented a choice of investment strategies (“investment buckets”) for employers. These are:

- Higher risk
- Medium risk
- Lower risk

The main Fund investment strategy applies to the “higher risk bucket”. The “medium risk bucket” and “lower risk bucket” give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket’s initial investment strategy is 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the main Fund investment strategy but in the different proportions.

The lower risk bucket is made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, re-investment risk and any other reasonable margins of prudence deemed appropriate.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund’s strategic asset allocation in the table below. The target allocations in the table below are medium-term objectives and reflect the intention for a managed transition over time towards the allocations shown from the existing strategic allocation approved in March 2017.

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %	Control Range
Equities	43.0		38.0-53.0
UK Equities	15.2		
Overseas Equities	27.8		
US		4.3	
European (ex UK)		6.5	
Japan		3.2	
Asia Pacific		3.2	
Emerging Markets		4.9	
Global		5.7	
Fixed Income	17		13.0-23.0
UK Gilts		4	
UK Indexed Linked Gilts		9	
Corporate Bonds		4	
Property	11		8.0-14.0
Alternatives		28	23.0-33.0
Private Equity		6	
Hedge Funds		4	
Opportunistic Credit		7	
Infrastructure		11	
Cash		1	0.0-6.0
Total	100		

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Investment Consultant and Independent Advisors under the auspices of its Medium-Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The Fund's investment strategy is underpinned by certain core philosophies pertaining to individual asset classes *inter alia*:

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets
- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments
- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk

- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited.
- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term.

The Fund has written investment philosophies for each of the internally managed portfolios which derive from the core philosophies above.

Under the triennial review the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;
- To maintain sufficient assets to pay all benefits as they arise;
- To implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;
- To provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

The Fund's Investment Consultant provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

In addition to providing a review of the Fund's investment strategy, the Investment Consultant also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter-term strategic time horizon, the Investment Consultant also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium-Term Tactical Asset Allocation framework in which the Investment Consultant advises and makes recommendations on the magnitude of medium-term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

The suitability of particular investments and types of investments

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.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed regularly by the Fund's Investment Management Working Party (IMWP) and its Independent Advisors to ensure that returns, risk and volatility are all appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Investment Consultant undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A report is produced by the Investment Consultant and presented to the IMWP on a quarterly basis for discussion.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a clearly determined approach to its risk tolerance subject to the principal objective of maximising the returns from its global investment activities within reasonable risk parameters.

Accordingly, the Fund's Actuary has identified the following key risks:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly higher than anticipated
- Longevity continues to increase at a greater rate than anticipated
- Regulatory changes
- Changes to national pension requirements and/or HM Revenue & Customs (HMRC) rules

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Investment Consultant to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets.

In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets such as property, private equity, private credit, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

This is designed to provide the fund with a proxy insurance policy against major financial market dislocations.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by correcting positions created by market movements on a quarterly basis in accordance with the strategic advice of its Investment Consultant and discussions with its Independent Advisors.

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.

How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

Merseyside Pension Fund pursues a policy of Responsible Investment (RI), arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected.

Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all of its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system.

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates.

The Fund evaluates and monitors the RI capability of all of its investment managers, often with reference to industry standards of best practice. MPF is a signatory of the **Principles for Responsible Investment** and is committed to reporting on its implementation of these Principles and promoting them across the investment industry.

MPF does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government.

However, MPF considers that this does not necessarily preclude the use of ESG integration techniques, including screening, within particular mandates where the investment objective includes the optimisation of ESG-related risk and opportunity.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered through-out the

governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.

MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a **'finance-first' investor**). Social impact or thematic investing may provide access to diverse opportunities, uncorrelated to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF's participating employers.

The exercise of rights (including voting rights) attaching to investments

MPF considers that practising responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership.

The practice of stewardship is closely aligned to MPF's duty to act in the best interests of all of its stakeholders. The Fund is a signatory to the UK Stewardship Code for Institutional Investors and has published a Statement of Compliance with its seven principles.

MPF's policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund).

In accessing any co-mingled investment vehicle with the objective of matching the performance of a stock market index, the Fund will expect the manager to implement its voting instructions over the underlying securities on a pro rata basis.

The Fund implements its voting policy in partnership with a specialist advisor (currently **PIRC Ltd**) who provides appropriate research and vote execution services that cover the major markets in which shares with voting rights are held.

MPF votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party. A summary of voting activity forms part of the Fund's Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company's recommendation, is made publicly available through the **Fund's website**.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio.

As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the **Local Authority Pension Fund Forum**, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity.

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Opening Times:

Mon. to Fri. 9am - 5pm

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	TREASURY MANAGEMENT POLICY
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

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

2.0 BACKGROUND AND KEY ISSUES

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

3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATIONS

- 5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 There are no outstanding previously approved actions.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are no implications arising directly from this report.

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

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

13.0 RECOMMENDATIONS

13.1 That Board Members note the report

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

REPORT AUTHOR

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SUBJECT HISTORY

Reports/notes	Date

APPENDICES

Treasury Management Policy Report

Treasury Management Policy 2020/21

WIRRAL COUNCIL

PENSIONS COMMITTEE

3 FEBRUARY 2020

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

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2020/21.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy were last approved by the Pensions Committee on 21 January 2019.
- 2.2 The Fund's cash flows for dealings with members have moved negative with outflows to pensioners more than income from contributions and with the 2019 triennial valuation improved results, this will reduce contribution income further. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate and daily cashflows and regular reporting is essential.
- 2.3 The policy statement is attached as Appendix 1 to this report. There are no significant changes to the policy followed for 2019/20.
- 2.4 Plan and Strategy
- MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.
 - The Fund will run minimal cash balances to pay pensions and meet other obligations. The core position is 0% of Fund assets as agreed within the strategic asset allocation approved on 21 March 2017. Under the revised Investment Strategy, this is expected to increase to 1%.
 - Internally managed investment cashflows will continue to be channelled through the Custodian, to maximise benefits and efficiencies agreed under the new contract.

- The main aims when managing liquid resources are the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows; an optimal return on investments commensurate with proper levels of security and liquidity.
- The UK Bank Rate remains at 0.75% and despite keeping rates on hold, Monetary Policy Committee members that if Brexit uncertainty continues on or global growth fails to recover, they are prepared to cut interest rates as required. Short-term money market rates and bank deposit rates are likely to remain at low levels for an extended period which will have an impact on investment income.
- For MPF the achievement of high returns from treasury activity is of secondary importance compared with the need to limit exposure of funds to the risk of loss.
- The maximum maturity for any single treasury management investment is 1 year.
- Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support. The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report.

5.0 CONSULTATION

- 5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 There are no outstanding previously approved actions.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are no implications arising directly from this report.

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

- 8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

13.0 RECOMMENDATION/S

13.1 That Members approve the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2020/21.

14.0 REASON/S FOR RECOMMENDATION/S

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

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APPENDICES

The Treasury Management Policy Statement 2020/21 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

CIPFA Treasury Management Code of Practice and Guidance Notes.

SUBJECT HISTORY

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee – Treasury Management Annual Report	16 July 2019
Pensions Committee – Treasury Management Policy and Strategy	21 January 2019
Pensions Committee – Treasury Management Annual Report	16 July 2018
Pensions Committee – Treasury Management Policy and Strategy	22 January 2018
Pensions Committee – Treasury Management Annual Report	17 July 2017
Pensions Committee – Treasury Management Policy and Strategy	23 January 2017

**MERSEYSIDE PENSION FUND
TREASURY MANAGEMENT POLICY STATEMENT**

1 INTRODUCTION

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

2 DELEGATION

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

3 DEFINITION

- 3.1 Treasury management activities are defined as: the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 3.2 The Fund regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Fund.

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

TREASURY MANAGEMENT PRACTICES (TMPs)

4 TMP 1 RISK MANAGEMENT

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

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

5 TMP 2 Performance Measurement

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

6 TMP 3 Decision Making and analysis

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

7 TMP 4 Approved Instruments, methods and techniques

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

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

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

9 TMP 6 Reporting Requirements and Management Information Requirements

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

9.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.

9.4 The Fund Operating Group (FOG) will receive interim reports on treasury management, with significant issues reported to IMWP.

10 TMP 7 Budgeting, accounting and audit arrangements

10.1 The budget for the treasury management function will be included as part of the budget for the Fund which is submitted to Pensions Committee on an annual basis.

10.2 The Fund will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

11 TMP 8 Cash and cash flow management

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

12 TMP 9 Money Laundering

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

13 TMP 10 Training and Qualifications

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

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

14 TMP 11 Use of external service providers

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

15 TMP 12 Corporate Governance

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

MERSEYSIDE PENSION FUND:

SCHEDULE TO TREASURY MANAGEMENT POLICY

SCHEDULE 1: RISK MANAGEMENT

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

CATEGORY	LIMIT Per Institution/Group
Fund's Bank	£50m
Approved Bank	£20m
Approved Building Societies	£15m
All Local Authorities	£20m
Money Market Funds with a Constant Net Asset value	£30m
Fund's Custodian (Money Market Fund) (Internal and External Managers guideline)	£100m*
Fund's Custodian (Money Market Fund)	£50m

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

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

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

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

SCHEDULE 2: PERFORMANCE MEASUREMENT

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

SCHEDULE 3: DECISION MAKING AND ANALYSIS

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

SCHEDULE 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

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

Pensions Committee

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

Investment Monitoring Working Party (IMWP)

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

Director of Pensions

Responsibilities as set out in twelve Treasury Management Practices.

Fund Operating Group (FOG)

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

Head of Finance & Risk

Responsible for team that undertakes treasury management activities.

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

- 5.6 Staff currently involved in the system have an adequate level of relevant qualifications. Further training, as required, is made available as part of ongoing staff development:

Director of Pensions FCSI, ACIB
Head of Finance & Risk CPFA
Senior Fund Accountant CIMA
Fund Accountant (Compliance) AAT
Fund Accountant (Operations) CPFA, AAT
Settlements Officer AAT
Valuations Officer AAT
Investment Officer (this post is currently vacant)

- 5.7 Dealing arrangements will be detailed within application forms (where applicable) and approved by an authorised signatory.
- 5.8 The Fund's policy is not to tape treasury management conversations, although faxed or emailed confirmation is required of the deal from the broker or directly from the counterparty (if non-standard) before the payment is released.
- 5.9 Treasury management facilities are set up with the approval of at least one of the Fund's authorised signatories.
- 5.10 Treasury management facilities provided on the internet will be agreed with the Director of Pensions and will be scrutinised by the Compliance Section to ensure all necessary controls are in place.

SCHEDULE 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

SCHEDULE 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

SCHEDULE 8: CASH FLOW

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

SCHEDULE 9: USE OF EXTERNAL PROVIDERS

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

SCHEDULE 10: CORPORATE GOVERNANCE AUDIT AND COMPLIANCE

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

WIRRAL COUNCIL

PENSION BOARD

5 FEBRUARY 2020

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2020/21
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Board members of the Budget report to Pensions Committee.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 In the Good Governance review, it is proposed “that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this”. The report states that “Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers”. As set out in the appendix, officers believe that this budget will fulfil this expectation.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
AUTHOR**
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SUBJECT HISTORY

Reports/notes	Date
This is a standing item on the agenda	

APPENDICES

Budget Report to Pensions Committee February 2020

WIRRAL COUNCIL

PENSIONS COMMITTEE

3 FEBRUARY 2020

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2020/21
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the budget for the financial year 2020/21.
- 1.2 The headline figures are that, during the financial year 2020/21, we are estimating that MPF will pay £359m in pensions and receive £400m in contributions from employers and employees. The Fund has a value of £9.4bn at 30 September 2019. The proposed administration costs of £23.0m including £14.9m of investment management charges to external managers represent a cost of £166.33 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs are approximately £107.58 per member or 0.16% of assets under management.
- 1.3 The budget for 2020/21 is higher at £23.0m than £22.3 in 2019/20 primarily due to higher investment management fees.
- 1.4 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2020/21 is as follows:

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

Inflation adjustments	CPI 1.7% as at September 2019.
Investment Performance	1.9% + 2.3% bonds; 6.5% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2019/20. Due to the volatility in financial markets and delays in billing from certain third-party suppliers it is not possible to predict the outturn with complete accuracy. Therefore, some estimates have been used, and it is proposed to report on the actual outturn at the July meeting of Pensions Committee. At present, the outturn is lower than predicted largely due to investment market volatility, budgeted projects and areas of work being deferred to 2020/21 and assumptions used for staffing.
- 2.3 The Fund's major expenditure is on investment management fees. For 2020/21 it is assumed that the assets under management remain as 2019/20, any changes will be reflected in the report presented in July. Investment management fees are mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise substantially. Accordingly, when this expenditure rises there is a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2019/20 the outturn is expected to be lower than the estimate made last year due to market volatility.
- 2.4 The second highest expenditure is on staffing; employee costs overall reduce in 2020/21 reflecting the reduced pension related recharges. The outturn for 2019/20 will be underspent due to assumptions used. With the continued growth in the Fund's assets and membership, an increasing regulatory burden, the implementation of various risk management strategies and the progress of pooling, a further review of staffing requirements is being undertaken and any material changes will be reported to a future meeting of this Committee.
- 2.5 The predicted 2019/20 outturn for supplies is lower than estimated largely due to an underspend on costs associated with investment selection services, pooling and IT, these budgets have been reviewed, updated and carried forward to 2020/21.
- 2.6 For departmental & central support charges, at present, the estimates have been left the same as last year; the figure reported to Committee last year was £359,641. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

3.0 RELEVANT RISKS

- 3.1 The Chair of the CIPFA Pensions Panel has previously written to all administering authorities reminding them of their responsibilities regarding the resourcing requirement of LGPS funds. The Fund regularly reviews its requirements and updates its Risk Register to reflect identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage investments. This budget provides adequate resources for these two core functions.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements are subject to ongoing review with additional scrutiny from the NLGPS Joint Committee. For all other expenditure there has been a careful review process with senior management culminating in a planning meeting at which the Director of Pensions approved the proposals for discretionary expenditure in this report.

5.0 CONSULTATION

- 5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are no implications arising directly from this report.

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

- 8.1 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment income and employee and employer contributions, the full costs are estimated to be £166.33 per member (including active contributors, deferred and pensioners). The costs per member at Merseyside Pension Fund are competitive with other pension funds of similar size in both the public and private sector particularly when analysed net of investment performance.
- 8.2 As stated within the executive summary, the Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

9.0 LEGAL IMPLICATIONS

- 9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

13.0 RECOMMENDATION/S

13.1 Members approve the budget for 2020/21. (Subject to review of charges from the administering authority for support services).

13.2 That a further report on the outturn for 2019/20 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2020/21 be presented to Pensions Committee Members in July.

14.0 REASON/S FOR RECOMMENDATION/S

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

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APPENDICES

The budget for 2020/21 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

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

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

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

Appendix 1

Value of the Fund	£9.4bn	30/09/2019
Investment income Received	£247m	Projected 2020/21
Pensions Paid	£359m	Projected 2020/21
Contributions Received (see note 1)	£400m	Projected 2020/21
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 2019/20 (£)	Probable Out-Turn 2019/20	Budget 2020/21 (£)
Employees			
Pay, NI and Pension	3,511,972	3,170,401	3,674,058
Training	20,000	15,041	20,000
Other Staffing Costs	267,412	260,670	41,986
	3,799,384	3,446,112	3,736,044
Premises			
Rents	197,259	197,259	199,124
	197,259	197,259	199,124
Transport			
Public Transport Expenses	52,190	27,620	33,990
Car Allowances	1,862	2,170	2,500
	54,052	29,790	36,490
Supplies			

Furniture and Office Equipment	14,000	4,274	10,000
Printing and Stationery	23,800	16,016	18,500
Computer Development and Hardware	703,000	569,073	643,000
Postages and Telephones	94,000	92,944	101,000
External Audit	30,000	30,149	30,000
Services and Consultants Fees	1,638,680	988,399	1,501,580
Conferences and Subsistence	40,097	21,326	46,885
Subscriptions	145,392	146,097	147,174
Other	61,400	26,076	62,000
	2,750,369	1,894,354	2,560,139
Third Party			
Medical Fees	3,500	3,452	3,500
Bank Charges	10,000	9,642	10,000
Investment Management Fees	14,044,397	13,532,247	14,907,890
Custodian Fees	300,000	200,000	300,000
Actuarial Fees	500,000	625,000	625,000
Other Hired and Contracted Services	300,010	191,632	311,116
	15,157,907	14,561,973	16,157,506
Departmental & Central Support Charges	359,641	359,641	359,641
	359,641	359,641	359,641
Total Expenditure	22,318,612	20,489,129	23,048,944

Note 1 The estimated contributions for 2020/21 are higher as it is assumed a number of our employers will pay additional upfront contributions, this will result in lower contributions being received in 2021/22 and 2022/23 as calculated by the actuary as part of the 31 March 2019 triennial valuation currently being finalised.

WIRRAL COUNCIL

PENSION BOARD

5 FEBRUARY 2020

SUBJECT:	MEMBERS' DEVELOPMENT PROGRAMME
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a copy of a recent report to Pensions Committee on this subject. It also reminds Board members of their training responsibilities.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The report informs the Board of training and development opportunities provided to members of Pensions Committee. A number of these opportunities are also available to Board members.
- 2.2 In accordance with the Pensions Act 2004 every member of the Wirral Pension Board must be conversant with key areas of knowledge and understanding of the law relating to pensions with particular reference to:
- Background and understanding of the legislative framework of the LGPS;
 - General pension legislation applicable to the LGPS;
 - Role and responsibilities of the Local Pension Board;
 - Role and responsibilities of the Administering Authority;
 - Funding and investment;
 - Role and responsibilities of Scheme Employers;
 - Tax and contracting out;
 - Role of advisors and key persons;
 - Key bodies connected to the LGPS.
- 2.2 Pension Board members are expected to complete induction training within the first three months of their appointment. This consists of an online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).
- 2.3 Pension Board members undertake the same knowledge and understanding framework which is currently provided to members of Merseyside Pension Fund Board through the CIPFA Knowledge and Skills Framework.

- 2.4 The Scheme Manager uses the TPR Trustee Toolkit assessments that the Local Pension Board members complete as a basis for agreeing an appropriate training programme.
- 2.5 Board members are reminded of the need to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Board members are therefore required to maintain a written record of relevant training and development.
- 2.5 The annual assessment of the performance of the Pension Board includes a detailed report on training events offered and attended by Board members.

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

- 3.1 There are none arising from this report

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

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SUBJECT HISTORY

Reports/notes	Date

APPENDICES

REPORT TO PENSIONS COMMITTEE FEBRUARY 2020

WIRRAL COUNCIL

PENSIONS COMMITTEE

3 FEBRUARY 2020

SUBJECT:	MEMBERS' DEVELOPMENT 2020
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide Members with an outline of the proposed programme for member development in 2020.

2.0 BACKGROUND AND KEY ISSUES

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

- 2.7 It is a statutory requirement that the Fund's annual report includes detailed information on training events offered and attended by elected members. A register of Members' attendance at training and development events is kept and reviewed annually by the Governance & Risk Working Party.
- 2.8 Appendix 2 contains information on two forthcoming training and development opportunities.

3.0 RELEVANT RISKS

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

4.0 OTHER OPTIONS CONSIDERED

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

5.0 CONSULTATION

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

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 None

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are none arising from this report.

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

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

9.0 LEGAL IMPLICATIONS

- 9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note and approve the proposed training and development plan for 2020.

13.2 That Committee considers if it wishes to send a delegation to attend the conference(s) in appendix 2 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.

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APPENDICES

Appendix 1- Development Programme

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
Pensions Committee	January 2019
Pensions Committee	January 2018
Pensions Committee	January 2017

APPENDIX 1

<u>MONTH (2020)</u>	<u>EVENT</u>	<u>REPRESENTATION*</u>
23 - 24 January	LGPS Governance Conference	
27 - 28 February	LGC Investment Summit, Chester	All Members
25 February	Investment Monitoring Working Party	All Members
11 - 13 March	PLSA Investment Conference, Edinburgh	Chair
18 - 20 May	PLSA Local Authority Conference, Cotswolds	Party Spokespersons
16 June	Investment Monitoring Working Party	All Members
July	CIPFA Conference	Chair
9 - 11 September	LGC Investment Seminar, York	Party Spokespersons
15 September	Investment Monitoring Working Party	All Members
October	Local Government Pension Investment Forum	Party Spokespersons
14-16 October	PLSA Annual Conference, Liverpool	All Members
17 November	Investment Monitoring Working Party	All Members
November	Annual Employers Conference, Aintree	All Members
October – December	Fundamentals training days; multiple dates & locations	All Members
December	LAPFF Annual Conference, Bournemouth	Party Spokespersons

**Reflects previous attendance*

APPENDIX 2

EVENT	LGC Investment Seminar CONVERTING 2020 VISION INTO A SUCCESSFUL INVESTMENT STRATEGY
SUMMARY	<p>The market value of the Local Government Pension Scheme funds in England and Wales at the end of March 2019 was £287.2 billion, an increase of £16.3 billion or 6%.</p> <p>The most recent valuation results are showing that overall the funding levels have improved again. Nevertheless, employers face funding pressures and considerable financial uncertainties, so can these improvements be protected and maintained? Attend the LGC Investment seminar to better understand these issues and gain insight on how to address this major issue.</p> <p>https://investmentseminar.lgcplus.com/sites/investmentseminar.lgcplus.com/files/LGC%20Investment%20Seminar%202020%20-%20brochure.pdf</p>
VENUE	Chester
DATE(S)	27-28 February 2020
COST	£569+VAT
EVENT	PLSA Local Authority Conference
SUMMARY	<p>The PLSA Local Authority Conference is a must attend event for anyone involved in the Local Government Pension Scheme (LGPS) – a residential conference that includes keynote speeches, stream sessions, a Learning Zone, a specialist session, an exclusive exhibition, networking lunch for Local Pension Boards, Welcome Drinks Reception and a Conference Dinner.</p> <p>The event is the largest of its kind dedicated to the LGPS, attended by over 400 local authority officers, councillors, members of Local Pension Boards, admitted bodies and their advisers.</p> <p>https://www.plsa.co.uk/Events-Local-Authority-Conference</p>
VENUE	Gloucestershire
DATE(S)	18-20 May 2020
COST	£420+VAT

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WIRRAL COUNCIL

PENSION BOARD

DATE 5 FEBRUARY 2020

SUBJECT:	GOOD GOVERNANCE PROJECT PHASE II REPORT
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members an update on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the publication of the Phase II REPORT ON 15 November 2019.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The requirement for strong governance has led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance.
- 2.2 The review focuses on the effectiveness of the LGPS governance models and considers alternatives or enhancements to existing models which can strengthen governance going forward whilst maintaining strong links to demographic accountability.

3.0 RISKS

- 3.1 The new governance requirements assist the scheme manager to establish and operate internal controls to identify, evaluate and manage risks that relate to scheme administration

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 Fund will appoint an officer dedicated to governance to coordinate, implement and review governance policies to ensure continued compliance.

9.0 LEGAL IMPLICATIONS

9.1 None at this stage.

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 Board Members note the report.

14.0 REASON/S FOR RECOMMENDATIONS

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

**REPORT
AUTHOR**

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SUBJECT HISTORY

Reports/notes	Date

APPENDIX:

Good Governance Project Phase II Report

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WIRRAL COUNCIL

PENSION COMMITTEE

3 FEBRUARY 2020

SUBJECT:	GOOD GOVERNANCE PROJECT PHASE II REPORT
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the publication of the Phase II report on 15 November 2019. This latest report was prepared by the two working groups formed following phase one of the project and builds on the findings from the initial Good Governance report published in July 2019.
- 1.2 Good Governance Phase II contains detailed proposals for the changes required to implement the governance framework. It also calls for statutory guidance to set out the standards that LGPS funds are expected to meet with regard to compliance with governance responsibilities and the appropriate level of external oversight to improve accountability.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Strong governance of the LGPS has always been paramount, but due to the collapse of several private sector funds, alongside pressures to maintain balanced funds the need to maintain this strong governance has led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance.

The review focuses on the effectiveness of the LGPS governance models and considers alternatives or enhancements to existing models which can strengthen governance going forward whilst maintaining strong links to democratic accountability.

- 2.2 Members were informed at the Committee meeting dated 4 November 2019 (minute 37 refers) that following the publication of the initial 'Good

Governance Report' at the end of July, SAB would continue to progress the work to improve governance within the LGPS.

- 2.3 Two stakeholder working groups, supported by Hymans Robertson, were established to develop the initial findings, capture existing best practice across funds and set consistent standards to build on the project's earlier proposals to strengthen the governance and administration of the LGPS.
- 2.4 The Phase II report was published on 15 November 2019 and details the proposed outcomes from the workstreams, along with a summary of 17 recommendations necessary to implement an improved governance framework. The report can be accessed from the following link:

<https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/>

- 2.5 The recommendations include:

- Production of statutory guidance by MHCLG to establish new governance requirements for funds
- The requirement to allocate a single named officer responsible for all LGPS related activity for fund
- The requirement to publish an annual governance statement signed by the nominated 'LGPS Senior Officer' to set out how the Fund complies with the governance requirements
- The requirement to publish a policy on the representation of scheme members and non-administering authorities on the committee
- Formalisation of knowledge and understanding training for key individuals and in particular those individuals on decision-making committees
- Service delivery to include publication of an administration strategy and inclusion of the administering authority in the business planning process
- Biennial independent Governance Review of the administering authority with a required improvement plan if any issues identified.

2.6 Next Steps (Phase III)

At its meeting on 6 November, SAB agreed that the working group should proceed to develop phase III of the project, which is intended to include the following actions:

- MHCLG will be required to draft the required changes to their guidance
- The SAB to engage with the LGPS National Frameworks to establish an independent governance review provider framework
- The SAB to establish a set of performance indicators to measure LGPS funds' standards of service
- SAB to consider preparing a list of topics to be included in the governance compliance statement

2.7 Final proposals for phase III will be considered at the next scheduled SAB meeting on 3 February 2020.

Preliminary Gap Analysis of MPF

2.8 Merseyside Pension Fund is substantially compliant with the proposed governance requirements and officers will undertake a policy review in preparation for the issue of revised guidance and examples of best practice.

2.9 Officers are considering their approach to re-drafting the Conflict of Interest policies, developing the knowledge and understanding of key individuals within the fund, documenting service delivery and measuring performance of the LGPS function; ultimately preparing MPF for a biennial independent governance review.

3.0 Risks

3.1 The new governance requirements assist the scheme manager to establish and operate internal controls to identify, evaluate and manage risks that relate to scheme administration and the safe custody of scheme assets.

3.2 Fund compliance to statutory guidance and recommendations from the Good Governance Project will be subject to biennial independent review and further scrutiny from the Pensions Regulator; non-compliance will result in sanction and reputational damage to the Fund.

4.0 Other Options Considered

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 new governance requirements will require the Fund to appoint an officer dedicated to governance to effectively coordinate the implementation of the proposals and review governance policies to ensure continued compliance as part of the biennial governance review and increasing scrutiny from tPR, SAB and the Local Pension Board activities.

8.2 The costs of implementing the recommendation from SAB's governance review of the LGPS will be met from the Pension Fund as part of its obligation to meet statutory legislation and guidance.

9.0 Legal Implications

9.1 None at this stage.

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 Recommendation

- 13.1 That Committee Members note the report and the recommendations within the 'Good Governance Phase II' report with regard to the effectiveness of the Local Government Pension Scheme Governance Arrangements.
- 13.2 To note the requirement for the Fund to increase officer resources in the area of governance management.

14.0 Reason/s for Recommendations

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

**REPORT
AUTHOR**

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BRIEFING NOTES HISTORY

Briefing Note	Date
LGPS UPDATE	4 NOVEMBER 2019
LGPS UPDATE	16 JULY 2019

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WIRRAL COUNCIL

PENSION BOARD

5 FEBRUARY 2020

SUBJECT:	WORKING PARTY MINUTES
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

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

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Investment Monitoring and Governance & Risk Working Parties convene regularly to enable Pension Committee members to consider pension matters in greater detail. They are not decision-making bodies but minutes and action points arising are reported to Committee.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

REPORT Peter Wallach Director of Pensions
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SUBJECT HISTORY

Reports/notes	Date
This is a standing item on the agenda	

APPENDICES

Exempt appendix

Governance & Risk Working Party 14 November 2019
Investment Monitoring Working Party 14 November 2019

Minutes of the Governance and Risk Working Party, Thursday 14 November 2019

Present:

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Councillor Tony Jones	TJ	WBC
Councillor Geoffrey Watt	GW	WBC
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 George Davies	GD	WBC
Councillor Paulette Lappin	PL	Sefton Council
Councillor Chris Carubia	CC	WBC
Councillor Ian Byrne	IB	LCC
Roger Bannister	RB	Unison
Councillor Andrew Gardner	AG	WBC

In attendance: Emma Jones, Donna Ridland.

1. Approval of Minutes

Minutes of GRWP, dated Thursday 12 March 2019 were approved at Pension Committee 16 July 2019.

2. Declarations of Interest

Cllr. Geoffrey Watt declared an interest by virtue of having a relative who is a member of Merseyside Pension Fund. Cllr. Tony Jones declared a pecuniary interest by virtue of being a member of the Fund.

Noting/Action points

Noted.

3. Pensions Administration KPI report

YM reported on the Pension Administration KPI report which has been considered by Pension Board at its meeting on the 17 March, 17 July and 12 November 2019 and is a standing item on the Pension Board agenda.

YM gave a review of the report with all its salient points paying particular attention to work around data quality, annual allowance and the migration of documents, letters and workflows into an integrated pensions administration and payroll system.

YM advised that resources have been allocated to improve data quality in preparation for production of ABS and valuations. A lot of partnership working took place between the Fund and employers. These efforts paid off with the production of 97% of active benefit statements by 31 August and notification to TPR via the scheme return of a common data quality score of 99.1% and a scheme specific data score of 92.9%.

YM raised awareness that following production of last year's Pension Saving Statements a number of issues emerged which resulted in a comprehensive audit. Consequently, a measurable action plan was agreed identifying service improvements for the digital publication of PSS. The actions have been completed resulting in the timely issue of this year's statements.

YM confirmed that the migration from two core systems to an integrated pension admin system was completed over the reporting period. This involved the transfer of 8.5m documents and a substantial review of the operational workflow processes that drive the business. It was highlighted that administration processes are already realising efficiencies from moving to one integrated system.

YM noted that the KPIs have suffered whilst resources have been allocated to data quality work and the system changes and concluded that KPI standards will improve as the new systems are embedded and the quality of data improves.

Councillor GW questioned the circumstances of a former breach report to TPR in relation to failure to issue an acceptable level of Annual Benefit Statements and sought assurances on actions taken to remedy the non-compliance. A discussion took place on how MPF compares to other Funds and how improvements have been accomplished to the satisfaction of TPR. YM informed members that she attended a

Benchmark meeting with other Metropolitan Pension Funds and the quality of MPF's statements compared well to those of its peers. The Fund has also answered the TPR's public service governance and administration survey, which informs and shapes regulatory approaches and priorities.

Noting/Action Points

The report was duly noted.

4. Internal audit annual report

DS reported on the internal audit annual report which is prepared by the Chief Internal Auditor. DS advised that the report sets out the background to the Internal Audit provision, an opinion on the adequacy and effectiveness of the Fund's internal control environment, a review of work undertaken in 2018/19 and the outcomes of the internal audit planning work for 2019/20. DS reported that internal audit service is able to provide significant assurance on the adequacy and effectiveness of the MPF internal control environment.

Councillor Tony Jones (TJ) asked about the wording of 5.2 'In the majority of systems audited there is a sound system of control in place...' does this mean that there is a minority in which the controls are not in place? DS explained that recommendations have been made as detailed within the report, Internal Audit perform follow up audits to assess whether recommendations have been implemented, once all recommendations are implemented, full assurance is then reported. DS referred to section 5.2 that also reports no significant weaknesses were identified. YM commented that the Fund has the opportunity to ensure the findings are accurate and agrees to the recommendations and provides a timeframe for implementation.

Noting/Action Points

The report was duly noted.

5. Contracts update

DS reported on the Fund's Procurement Rules Approval Documents (PRADs) on the Corporate Procurement Unit database that had been approved since the last meeting in accordance with Wirral Council's Contract Procedure Rules (CPRs). DS explained the different types of PRADs as set out in the CPRs and provided an overview of the approved PRADs for the Fund as detailed within the appendix to the report.

DS advised that a maintenance contract was included in the report in error as it is not a Fund PRAD. DS advised that the appendix included a breach notice and explained this was for using Royal Mail for postage, DS explained Royal Mail is a sole supplier that is used across Wirral Council, MPF has now completed a PRAD1 for Royal Mail.

Noting/Action Points

The report was duly noted.

6. Risk Register

PW reported on the Risk Register and explained that it is an essential component 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 and is taken to Pension Board. It is reviewed formally by officers on a six-monthly basis and updated immediately if any risks are identified in the interim.

The report provided details of additions to the register, changes to risk ratings and risks that had been removed.

Noting/Action Points

The report was duly noted.

7. AOB

PC declared as there was Any Other Business the meeting is duly closed.

Noting/Action Points

Noted.

Date of Next Meeting

Tuesday 25 February 2019 at 2.30pm

WIRRAL COUNCIL

PENSION BOARD

5 FEBRUARY 2020

SUBJECT:	PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides Board members with a copy of report to Pensions Committee requesting that Members agree to the write off of £61,310.98 of unrecoverable rent arrears from the Fund's property portfolio.
- 1.2 Appendix 1 & 2 to this report contain exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The approval of the write off of irrecoverable rent arrears by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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

- 3.1 There are none arising from this report

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
AUTHOR**

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SUBJECT HISTORY

Reports/notes	Date

APPENDICES

PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS

WIRRAL COUNCIL

PENSIONS COMMITTEE

3 FEBRUARY 2020

SUBJECT:	PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS
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 agree to the write off of £61,310.98 of unrecoverable rent arrears from the Fund's property portfolio. The annual property rental income for 2018/19 was £30.5 million.
- 1.2 Appendix 1 to the report, (A report from CBRE detailing property rent arrears), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 As Members will be aware, CBRE are the managing agents for the Fund's property portfolio. Amongst other functions, they have responsibility for the collection of rent and management of arrears. CBRE has a rigorous policy around the identification of potential issues, and the management and collection of late payments. The Fund seeks to strike a balance between supporting tenants during periods of difficult trading and enforcement of debts which may result in tenants ceasing to trade. Potential implications of the current challenging retail conditions on the high street are being monitored closely. Arrears are reviewed at quarterly meetings with officers. On an annual basis CBRE produce a report on uncollectable arrears which is attached as an appendix to this report.

3.0 RELEVANT RISKS

- 3.1 Not relevant for this report.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 CBRE considers a number of actions for the recovery of rental arrears before any write off is recommended.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

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

8.1 The total amount recommended for write off in this report is £61,310.98. The annual property rental income for 2018/19 was £30.5 million.

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 write-off of uncollectable property rental income of £61,310.98.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 CBRE considers these rental arrears to be irrecoverable. The approval of the write off of irrecoverable rent arrears by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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APPENDICES

The report from CBRE is attached as an exempt appendix to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

No reference material used in the production of this report.

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee:	29 October 2018
	22 January 2018
Property portfolio rent arrears and write offs	15 November 2016

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WIRRAL COUNCIL

PENSION BOARD

5 FEBRUARY 2020

SUBJECT:	UPDATE ON DEVELOPMENT OF INTERNAL INVESTMENT MANAGEMENT ARRANGEMENTS
REPORT OF:	DIRECTOR OF PENSIONS

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Board members of a report to Pensions Committee providing an update on the progress made in the development of the internal investment management team, the implementation of internally managed investments and delivery of cost savings. Approval was also sought to implement an internally managed equity portfolio in respect of the Asia Pacific markets.
- 1.2 This report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 In the Pooling guidance issued by MHCLG in 2015, internal management was identified as an effective way of reducing investment management costs:

In-house management

Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Any reduction of costs should be assessed in the context of 'net of performance returns' i.e. a more expensive but higher performing manager is better value than a less expensive manager with mediocre performance.

- 2.2 The attached report provides further context to the considerations behind the recommendation.

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

- 3.1 There are none arising from this report.

4.0 RECOMMENDATION

- 4.1 That Board Members note the report.

5.0 REASON/S FOR RECOMMENDATION/S

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

**REPORT
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SUBJECT HISTORY

Reports/notes	Date
This is a standing item on the agenda	

APPENDICES

Exempt appendix: Internal Investment report

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

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