

WIRRAL COUNCIL

PENSIONS BOARD

16 JUNE 2018

SUBJECT:	PENSION BOARD REVIEW 2017-18 AND WORK PLAN 2018-19
WARD/S AFFECTED:	NONE
REPORT OF:	INDEPENDENT CHAIR OF PENSION BOARD
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

This report, which has been prepared in accordance with the Terms of Reference of the Pension Board, reviews the performance of the Board and its members during its third year. The third year of the Board has been taken as from 1 April 2017 to 31 March 2018. This report also includes a proposed Work Plan for 2018-19.

2.0 BACKGROUND AND KEY ISSUES

Under Section 11.3 of its Terms of Reference the Board is required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review has been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 13 June 2018. Following consideration by the Board, an approved version of this review will be presented by the Independent Chair to the Pensions Committee.

Purpose and Constitution of the Merseyside Local Pension Board

Under its Terms of Reference, the purpose of the Merseyside Pension Board is to assist the Administering Authority (Wirral MBC) in its role as a Scheme Manager under the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations. The Board is required to meet sufficiently regularly to discharge its duties and responsibilities effectively but not less than twice in any year. The Board met three times during its first year (2015-16), three times during its second year (2016-17) and three times during its third year (2017-18).

The Pension Board consists of nine members and is constituted of four employer representatives, four scheme member representatives and an independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board.

Board Meetings

Three meetings of the Board were held during the period covered by this review. These were on 27 June 2017, 10 October 2017 and 20 March 2018. Overall attendance by members of the Pension Board at meetings during 2017-18 was 79%.

Issues considered at each Board meeting are shown in the Table below:

	27/6/17	10/10/17	20/3/18
Members Code of Conduct – Declarations of Interest	/	/	/
Minutes of the Previous Meeting	/	/	/
LGPS Update	/	/	/
Investment Pooling Update	/	/	/
Pensions Administration Report	/	/	/
IMWP/GRWP Minutes	/	/	/
Pension Board Review 2016-17 & Work Plan 2017-18	/		
Investment Strategy Statement (ISS)	/		
ISS Guidance Update		/	
Investment Transparency Code	/		
MPF (Investment) Compliance Manual	/		
Draft Pensions Administration Strategy	/	/	
Compliance with the Pension Regulator's Code of Practice No14	/		
Review of 2016 Actuarial Valuation	/		
Audit Findings Report and Pension Fund Annual Report and Accounts		/	
Treasury Management Annual Report 2016-17		/	
Treasury Management Policy 2018-19			/
General Data Protection Regulations (GDPR) Briefing		/	
Markets in Financial Instruments Directive II Opt Up		/	
Annual Employers Conference		/	
Records Management Policy		/	
Pension Fund Budget 2018-19			/
Development and Training Programme			/
LGPS Investment Performance			/
Management of Carbon Risk			/
Potential Unfunded Liabilities (Bond/Guarantor Review)			/
MPF Contracts Timetable			/

During 2017-18 the Board, facilitated by reports prepared by the Officers, implemented the Pension Board Work Plan 2017-18. This work plan, which was approved by the Pension Board on 27 June 2017, was prepared following discussions between the Independent Chair and the Director of the Fund taking into account consultation with all Board Members. The 2017-18 Work Plan was expanded during the year to take account of further developments affecting both the LGPS generally and the

Merseyside Fund specifically including, for example, the implications of the new General Data Protection Regulations and the management of Carbon Risk by the Merseyside Fund.

The role of the Pension Board, as set out in Regulation 106 of the LGPS Regulations 2013 is “*assisting*” the Administering Authority (the role of which is exercised by the Pensions Committee of the Wirral MBC). Specifically, Regulation 106 includes reference to the Pension Board “*assisting*” the Administering Authority “*to ensure the effective and efficient governance and administration*” of the LGPS. Accordingly, during its first two years (2015-16 and 2016-17) the Board developed a clear focus towards the consideration of Governance issues which it continued during 2017-18.

Although the Terms of Reference of the Merseyside Pension Board specifically state that the Board cannot “*overturn investment decisions that have been made by the Pension Committee*” they also specifically state that the Board may in relation to investment decisions “*consider whether due process has been followed to validate the decision taken.*” In accordance with this Investment Governance responsibility the Board received, at its June 2017 meeting, a report and attachments on the Merseyside Pension Fund’s Investment Strategy Statement. This provided the Board with an opportunity to formally examine, review and seek information in relation to the Fund’s new Investment Strategy Statement which as a result of the revised LGPS Investment Regulations, which came into effect in November 2016, replaced the Statement of Investment Principles as the Funds primary investment policy document from March 2017.

The June 2017 Pension Board meeting also received (Agenda Item 11 and Exempt Agenda Item 15) a report on and a full copy of the Merseyside Pension Fund Compliance Manual. The opportunity to formally examine, review and seek information in relation to the Compliance Manual was particularly important, in relation to Investment Governance, given the size of the Fund (Assets of £8.2bn as at 31 March 2017), that £3bn is under some form of internal management by Merseyside Pension Fund staff under the leadership of the Director of Pensions and that this internal management is undertaken across a variety of diverse and complex Asset Classes including Listed Equities, Direct Property, Private Equity, Hedge Funds and Infrastructure. Access to the 85 page Compliance Manual, which had been revised in March 2017, provided clear evidence to the Board of the detailed provisions in respect of policies, procedures and guidance relating to Investment decision making by Officers and the behaviour and standards of business conduct required of the Merseyside Pension Fund’s Investment and Finance staff.

The Board continued to receive the Minutes of the Investment Monitoring Working Party (IMWP) which is the Fund’s principal forum for the consideration of Investment related issues. At its March 2018 meeting the Board discussed the nature and operation of the IMWP based on both its Minutes and the experience of Board Members who had attended meetings of the IMWP. The Pension Board commended both the broad ranging format (in terms of the range of issues considered at each meeting) and overall representation at the IMWP which includes the Funds’ Investment Consultants, two Independent Advisors, a range of Fund Officers responsible for investment issues as well as the Pensions Committee Members. The

Board did, however, also comment upon and note the limited attendance at IMWP meetings of Members of the Pensions Committee. Consequently, the Board was concerned that this potentially limited the benefits, in terms of Pension Committee Members understanding and participation, that might accrue from meetings of the Investment Monitoring Working Party.

While effective Investment Governance is vital in the context of seeking to ensure the Fund has sufficient Assets to meet its Liabilities, effective Administration Governance is vital in the context of ensuring that Liabilities are accurately identified and managed and that the entitlements of beneficiaries of the Merseyside LGPS are correctly recorded and in due course paid. In 2017-18 (as in 2016-17) the Board received the Minutes of the Governance and Risk Working Party (GRWP) which is the principal forum for the consideration of Risk Management/Internal Control and Pensions Administration. The minutes of the GRWP provided clear evidence of the consideration and discussion of a range of relevant issues across these vital areas of activity.

At the June 2017, October 2017 and March 2018 meetings the Board received a detailed report covering a broad range of Pensions Administration matters and containing extensive statistical reporting. When compared with the equivalent reports received in 2016-17 these clearly demonstrated a continued increase in both the quantity and complexity of Pensions Administration related work.

During 2017-18 the Pension Board also had the opportunity to examine, comment upon and assist in the development of a range of other Pension Administration issues – the draft Pensions Administration Strategy, the draft Records and Data Improvement Policy, an update on compliance with the Pension Regulator’s Code of Practice No 14, and the review of potential unfunded Liabilities of Admitted Bodies. Crucially, the Fund revised its Pensions Administration Strategy (prepared under Regulation 59 of the LGPS Regulations 2013) which sets out the key responsibilities of both the Fund and individual Employers and covers vital administration matters including administration standards, performance measures and communications with Employers. A draft revised Pensions Administration Strategy (PAS) was presented to and discussed by the Pension Board at its meeting held on 27 June 2017. After formal consultation with Employers (between 3 August and 2 October 2017) the results of the consultation and consequent amendments made by the Fund to the draft PAS were reported to the Board at its meeting held on 10 October 2017. The Board, through an email to each Board Member from the Head of Pensions Administration, was then offered the opportunity to review the new draft PAS prior to its presentation for approval by the Pensions Committee at its meeting on 13 November 2017. This October 2017 review of the draft PAS by the Pensions Board resulted in four further suggested amendments to the draft PAS of which three were included in the final version approved by the Pensions Committee. This included a suggestion, which was accepted, which defined “*persistent failure*” by an Employer in relation to administration requirements.

At the June 2017 meeting the Board received a report and detailed appendix in respect of the Fund’s compliance against the Pension Regulator’s Code of Practice No

14 “*Governance and Administration of Public Service Pension Schemes.*” The requirements of Code No 14 clearly influenced the Fund’s draft Records and Data Improvement Policy which was considered by the Pension Board and approved by the Pensions Committee during the latter part of 2017.

The October 2017 Pension Board meeting had the opportunity, prior to consideration by the Pensions Committee, to review and comment upon the Fund’s draft Records and Data Improvement Policy which provided a clear framework in respect of these processes and responsibilities and demonstrated a proactive approach to continual improvement. The Pension Board considered the draft policy and deemed it suitable for presentation to the Pensions Committee for approval on the basis that accurate data drives confident and proactive decision making and supports a solid risk management framework. Consequently, the final Records and Data Improvement Policy was approved by the Pensions Committee at its meeting held on 13 November 2017.

An important element of Pensions Administration/Liability management is the existence and operation of ongoing procedures to monitor and put in place arrangements in respect of potential unfunded Liabilities of Employers admitted to the Merseyside Pension Fund. Therefore, from a Governance perspective, it was important that the Pension Board, at its meeting held on 20 March 2018, received a report (part Open and part Exempt) on the review of potential unfunded liabilities undertaken by Mercer, the Actuary to the Merseyside Pension Fund. The Director of Pensions and Head of Pensions Administration answered questions from Board members regarding the operational practices relating to the management of Employer Liabilities. Given that the actual unfunded liabilities for an Employer would not be known unless that Employer closed and calculations were undertaken at that time it was reassuring that the assessment of Employers potential exit debts had been based on the cautious corporate bond yield termination method rather than the ongoing basis used to determine Employer contributions. Additionally, it was also important to understand that given the current financial pressures faced by Employers the Fund seeks to enter into genuine discussions with Employers regarding covenant strength and the impact of obtaining full coverage of the Liability as calculated by the Fund Actuary, which is prepared on a cautious basis.

At the March 2018 meeting the Board received a report on the Contracts timetable relating to the procurement of pension and investment services from third parties. This provided reassurance that the Fund is periodically reviewing/retendering these services while taking due account of developments within the LGPS such as investment Pooling. The Board also received (at the October 2017 meeting) the External Auditors Audit Findings Report together with the Draft Annual Report and Accounts of the Merseyside Pension Fund 2016-17. The Board noted that the External Auditor reported positively in respect of the Fund’s Financial Statements including stating that “*the accounts were prepared to a good standard with good supporting working papers.*” The Board commended the work of the Merseyside Pension Fund Finance team for their work in preparing the 2016-17 Financial Statements.

In September 2017 the CIPFA Pensions Panel issued a letter regarding the resourcing of LGPS Funds. This letter included the statement “*the level of scrutiny on LGPS*

Funds has never been higher both from internal sources such as Local Pension Boards but particularly from external sources such as The Pensions Regulator, Pensions Ombudsmen and the national press. It is therefore essential that funds have the necessary capacity to meet these challenges otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level.”

The letter also stated that *“the LGPS is already facing a number of challenges including managing an ever increasing number of employing bodies in the scheme and also the ongoing implementation of the 2014 CARE Scheme,”* that the Pensions Regulator would be *“focussing”* on data quality issues and that Investment Pooling initiatives *“are placing significant demands on existing pensions staff.”* The letter also stated that *“the current pressures and increased complexity facing the LGPS require an increase in resources to ensure that the huge challenge of establishing asset pools as well as the increasing administrative requirements do not create an unmanageable risk.”*

Notwithstanding the clear guidance contained in the CIPFA Pensions Panel letter, based on the reports presented to each meeting of the Pension Board during 2017-18 together with the consideration of the minutes of both GWRP and the IMWP it is clear that there is a need to keep under review the staffing resources available to effectively discharge the ever increasing complexity and volume of the work of the Investment, Pensions Administration (including Information Technology) and Finance (including Accounting) functions of the Merseyside Pension Fund. Therefore, it was pleasing for the Board to receive details of the Staffing Restructure (and increase in staff resources) undertaken during 2017 to reflect increased complexities and workloads. It is also noteworthy that the issue of staff resources was discussed by Pension Committee Members and Officers at the Governance and Risk Working Party during 2017. Clearly, good Governance, requires, however, that the Pensions Committee (through the Governance and Risk Working Party) and advised by the Director of Pensions keep under ongoing review the staffing resources necessary to effectively discharge the functions of the Merseyside Pension Fund.

In 2017-18 as in 2016-17 the development and implementation of Investment Pooling continued to be the highest profile development in the Local Government Pension Scheme (LGPS). This will have a significant effect on both the Investment and overall Governance arrangements of the LGPS. A report on Pooling was presented to the Board at all three meetings during 2017-18. The information provided to the Pension Board included (as Exempt Agenda items) the Update on Pooling letter and information provided to the Department for Communities and Local Government regarding the progress of the Northern Pool to 31 March 2017 and 30 September 2017 and the Draft Terms of Reference of the Joint Committee *“responsible for the delivery of a pooling solution”* known as the *“Northern Pool.”* These detailed documents confirmed the view reached by the Board in 2016-17 that the Northern Pool consisting of the Merseyside, Greater Manchester and West Yorkshire LGPS Funds is developing a model for Investment Pooling which should both fully meet Government requirements and the particular circumstances of the three participating Funds. With regard to Investment activity the reports provided to the Pension Board clearly demonstrated that the Northern Pool is focussing on the development of robust arrangements, closely aligned to the needs of the constituent Funds, which should

bring clear benefits to the Merseyside, Greater Manchester and West Yorkshire Funds in terms of both expanding the availability of infrastructure and other real/alternative assets and utilising these at reduced cost.

The submissions to Government and Draft Terms of Reference of the Joint Committee responsible for the overall Governance of the Northern Pool confirm the intention that it be comprised of 6 Elected Members (two from each Administering Authority) and 3 Trade Union representatives. This reflects a genuine intention by the Northern Pool to positively engage with and include Employee representatives in the top-level Governance body of the Northern Pool. This inclusion of Employee representatives should provide genuine diversity of experience and approach within the Northern Pool Joint Committee membership and therefore help prevent the Committee from adopting a “groupthink” approach to decision making.

In 2017-18, as in 2015-16 and 2016-17, all Members of the Board actively and positively contributed to debates arising from Agenda items. Pension Board members raised questions with Officers and made comments upon reports and issues arising based on their broad range of experience of the LGPS and beyond. This demonstrated the value of diversity amongst Board members in terms of Board discussions encompassing a range of perspectives and observations. Robin Dawson, who represented Employers from the Education sector, stepped down from the Board in April 2017. I would wish to place on record my appreciation and recognition of Robin’s positive contribution to the work of the Board during the period July 2015 to April 2017.

During 2017-18 the Board did not feel it necessary to make any formal recommendations to the Scheme Manager, the Pensions Committee of Wirral MBC.

Training and Development

Mindful of the requirements of the Public Service Pensions Act 2013 and the Pensions Act 2004 (As amended) training and development has been approached in a methodical and serious manner by both the Administering Authority and individual Board members. The March 2017 Board meeting had received a report on Member Development which had identified a range of Training and Development opportunities that individual Pension Board members might attend during 2017.

During 2017-18 Board Members were afforded and took up opportunities to attend a range of external training and conference events. These included the LGPS Fundamentals Training course organised by the Local Government Association/Local Government Pensions Committee well as conference events organised by the Pensions and Lifetime Savings Association, CIPFA and the LGPS Scheme Advisory Board.

Prior to the meeting of the Board held on 27 June 2017 the Members of the Board received a briefing from the Director of Pensions on the work of the Merseyside Pension Fund which was followed by a tour of the Fund’s offices at Castle Chambers, 43 Castle Street, Liverpool. This was an important training and development event enabling Board Members to both obtain a greater understanding of the work of the staff of the Fund (across Pensions Administration, Information, Investment and

Finance/Accountancy) and to visit where the actual day to day work of the Fund is undertaken.

All Members of the Pension Board were invited to attend the Annual Employers Conference held on 30 November 2017 which received presentations from Fund Officers on the background to the Fund, together with briefings on Governance, Investment, Pensions Administration issues and developments. The Fund Actuary also provided an update on Actuarial matters including developments since the 2016 Actuarial Valuation and the development of an Investment Risk Management framework to meet the differing circumstances of different Employers. A representative of the Pensions Regulator made a highly informative and broad ranging presentation which included the role and responsibilities of the Regulator in relation to the LGPS, the role of Employers in the LGPS, the importance of good data and record keeping, lessons from case work, data related issues including the Pensions Dashboard, and the need for cyber resilience. Five of the eight Members of the Board attended (there was at this time one vacancy). The Independent Chair of the Pension Board also made a presentation covering the work of the Board during the period May 2016 to October 2017.

Reporting Breaches of the Law to the Pensions Regulator

The Pension Board does not itself have decision making powers. In respect of the Reporting of Breaches of the Law to the Pensions Regulator the Administering Authority has determined (Pensions Committee of 16 November 2015) that the Board should be consulted by Officers when considering whether or not to report a specific breach (or likely breach) to the Regulator. This is an important role granted to the Board in terms of ensuring the good Governance of the Fund and appropriate interpretation of the Pensions Regulators guidance and the Merseyside Fund's policy on reporting breaches of the law. During the period covered by this report, 2017-18, there were no Breaches of the Law identified by the Fund Officers and upon which the Pension Board was therefore asked to give its view. Neither were there any matters identified by the Board itself as potential or actual Breaches of the Law.

Pension Board Review 2016-17 and presentation to the Pensions Committee

The Pension Board Review 2016-17 and Work Plan 2017-18 was considered and approved by the Board on 27 June 2017. This was then considered by the Pensions Committee at its meeting held on 17 July 2017. The Independent Chair attended this meeting, presented the review and answered questions from Members of the Pensions Committee.

Pension Board Costs of Operation 1 April 2017 to 31 March 2018

Training	£ 6,729
Transport	£ 2,652
Allowances	£ 11,264
Other	£ 290
Total	£ 20,935

Proposed Pension Board Work Plan 2018-19

The proposed Work Plan for 2018-19 is detailed below. This maintains an overall emphasis on Fund Governance. Pensions Administration will remain a particular area of focus given that this is an area of direct relevance to both Employers and individual Employees. Investment Pooling will also be an area of focus given this represents a fundamental change to and development of the Governance of the LGPS. The Work Plan will be updated as necessary during 2018-19.

Agenda item	13/6/18	16/10/18	2019
LGPS update	√	√	√
Administration KPI report	√	√	√
Pooling update	√	√	√
Working Party Minutes	√	√	√
Audit Plan	√		
Pension Board Annual Review 2017-18 and Work Plan 2018 - 19	√		
Monitoring of Investment Mandates		√	
Investment Performance		√	
Audit Findings Report and Annual Report and Accounts		√	
Management of Carbon Risk		√	
Pension Board and Member Development Programme			√
Briefing on 2019 Actuarial Valuation			√
Cost Transparency and Savings			√

Support for the Board by the Administering Authority during 2017-18

The effectiveness of the Board is dependent not only on the approach and contribution of its Members but also that of the Administering Authority. Throughout 2017-18 the Board received extremely positive support, advice and guidance from the Officers of the Merseyside Pension Fund. Meetings of the Board were supported and attended not only by the Director of the Fund but also the senior members of his team responsible for Pensions Administration and the Finance/Risk Management of the Fund.

As in previous years, between meetings, the Director of the Fund provided me with advice whenever requested as did his senior staff responsible for Pensions Administration and Finance/Risk Management. The Director's Personal Assistant also positively provided support throughout the year.

On behalf of the Board I would wish to thank the Officers for their positive approach and their reports, guidance and advice which enabled us to continue our task of seeking to genuinely "assist" the Administering Authority in its stewardship of the Merseyside LGPS Fund.

John Raisin
Independent Chair
Merseyside LGPS Local Pension Board

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Director of the Merseyside Pension Fund has been consulted in the preparation of this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That the Board receive and approve the Pension Board Review 2016-17.

13.2 That the Board approves the proposed Work Plan 2017-18

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Section 11.3 of the Terms of Reference of the Local Pension Board of the Merseyside Fund states that *“The Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Scheme Manager.”*

**REPORT AUTHOR: JOHN RAISIN
Independent Chair
Merseyside Local Pension Board
2 May 2018**

APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Report is brought annually to Committee	