

Pensions Committee

21 January 2020

Report title	Fund Merger	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The outcome of the Public consultation on the West Midlands Fund Merger with associated Regulations effective from 8 November 2019.
2. Receipt of the Secretary of State's Direction on the Establishment of Admitted Body Funds.
3. The programme of activity underway to effect Merger and meet the requirements of the Direction.

1.0 Purpose

- 1.1 To provide the Committee with an update on the proposal to merge the West Midlands Pension Fund with the West Midlands Integrated Transport Authority Pension Fund following the outcome of the formal consultation published in October 2019.
- 1.2 To provide the Committee with an overview of the next steps required to effect the merger meeting the requirements of the Regulations and the associated Secretary of State Direction.

2.0 Background

- 2.1 The Government Actuary's review of local LGPS actuarial valuations carried out in 2016-2017 led to a recommendation to the Ministry of Housing, Communities and Local Government (MHCLG) in September 2018 that the West Midlands Combined Authority (WMCA), as Administering Authority for the West Midlands Integrated Transport Authority Pension Fund (WMITA PF), develop a plan to address the employer-risk inherent within the closed Fund. Noting the historic delegation in place with Wolverhampton City Council for the management and administration of WMITA PF, the two Authorities entered discussions for the merger of the two Funds formally submitting a joint application to MHCLG in May 2019.
- 2.2 MHCLG published a Merger consultation in July 2019, together with draft Regulations and draft Secretary of State Direction (Appendix A), outlining the proposed terms and structure of a merger. The Fund, in consultation with our stakeholders (Actuary, External Audit and the two employers admitted to the WMITA PF) submitted a response to the consultation in September 2019.
- 2.3 On 18 October 2019, MHCLG published the outcome of the consultation having received two formal responses. The outcome, confirmed the Merger would proceed with two minor amendments to the proposal published in the consultation:
 - Revised effective date of 1 April 2019
 - Clarification on an event which would, in future, lead to closure of an admission agreement fund

These changes align to the requests made by the Fund in its formal response to consultation, in consideration of practicalities on implementation.

3.0 Merger Regulations and Secretary of State Direction

- 3.1 The Regulations effecting the merger were adopted into law on 8 November 2019, with effect from 1 April 2019, to coincide with the start of the financial year and start of the triennial valuation period.

3.2 In summary the regulations;

- Transfer the LGPS Administering Authority responsibilities from the West Midlands Combined Authority (WMCA) to the City of Wolverhampton Council as Administering Authority for the West Midlands Pension Fund (WMPF)
- Require both administering authorities to publish a statement of the assets and liabilities of their respective pension funds immediately prior to the merger, within 3 months of the Regulations coming into force
- Novate all legal and contractual arrangements WMCA held in relation to its role as Administering Authority to Wolverhampton Council.
- Transfer all assets and liabilities of the West Midlands Integrated Transport Authority Pension Fund to WMPF, now administered by the City of Wolverhampton Council

3.3 Further to the issuance of the new Regulations, MHCLG issued a Direction Order to WMPF on the management of the WMITA PF and the transfer of assets, following its merger with the West Midlands Pension Fund. Those Directions take effect at the same time as legislation and require assets of the West Midlands Transport Authority Pension Fund to be allocated to two separate admission agreement funds in accordance with the asset allocation of each of the admitted body employers immediately prior to the merger date, together with the novation of associated guarantees. Those admission body funds sit outside the main West Midlands Pension Fund.

4.0 Implementation

4.1 At its meeting on 25 September 2019, Pensions Committee approved the establishment of these separate admission agreement funds for the admitted body employers within the West Midlands Integrated Transport Authority Pension Fund, subject to the outcome of the Merger consultations, review of final regulations and Direction from the Secretary of State. This report confirms that process will now proceed with Delegation being given to the Director of Pensions to affect these requirements at the September committee meeting.

4.2 To meet the requirements of the Regulations and Direction, the Fund has obtained from the Fund Actuary, transfer statements of the assets and liabilities of the Main Fund (WMPF) and Transport Fund (WMITA PF), as at 31 March 2019 (Appendix B). These are included within the Appendices to this report, meeting the requirement for publication within the 3-month window and the requirements of Regulation 54, on establishing an admission agreement fund.

4.3 Once the admission agreement funds are established, confirmation will be issued to the Secretary of State. Actions required to implement merger and the establishment of the new admission agreement funds include:

- Review of financial accounts and transactions since 1 April, with transfer from WMCA to WMPF ahead of completion of year-end accounts.

- Set-up of new custody and bank accounts for transfer and allocation of assets to the two admission body funds. The Fund will seek assurance of this process through an interim audit in advance of the year-end.
- The review and update of contract and guarantee documentation to reflect the change in Administering Authority
- Notice to relevant authorities and regulators confirming the merger (including HMRC, ONS, the Pensions Regulator)

4.4 In addition, the Fund will issue a pension member communication to ensure members of the WMITA PF are aware and assured of these changes. As WMPF has been administering and managing the WMITA PF for some time (under delegation from WMCA) members of the WMITA PF are already accustomed to the WMPF member communications and engagement having been included in our service delivery the same as our main fund members since the delegation took effect.

4.5 The Committee will be provided with a further update on progress at the March meeting, noting all activity is planned for completion ahead of the year-end, 31 March 2020.

5.0 Financial Implications

5.1 Merger is not expected to have material financial implications for either Fund. On an ongoing basis, cost savings in the region of £22,000 p.a. is expected through the consolidation of financial reporting into a single Fund. Offsetting this over the first 1-2 years is the expected cost of implementing merger, to include legal and actuarial costs.

6.0 Legal implications

6.1 The report outlines the legal process required to effect the merger, failure by the Fund to comply with those legal requirements, including the requirements outlined in the Direction Order, may result in challenge and enforcement from regulating agencies.

7.0 Equalities implications

7.1 The merger has been conducted in consideration of the Equalities Act, there are no implications.

8.0 Environmental implications

8.1 This report contains no environmental implications.

9.0 Human resources implications

9.1 As the WMPF has conducted the management and administration of the WMITA Fund since its creation, there are no TUPE implications for employees of the WMCA as all duties and service delivery rested with officers of WMPF. This report therefore contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of Background Papers

- 11.1 MHCLG Consultation Outcome, 18 October 2019 – Proposed Merger of West Midlands Pension Funds
<https://www.gov.uk/government/consultations/proposed-merger-of-west-midlands-pension-funds>
- 11.2 The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019
<http://www.legislation.gov.uk/uksi/2019/1351/made>
- 11.3 GAD section 13 report
<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016>

12.0 Schedule of Appendices

- 12.1 Appendix A: Secretary of State Direction – 29 October 2019
- 12.2 Appendix B: Fund Actuary statements of assets and liabilities prior to merger (31 March 2019)