



Pensions Committee

Date:	Tuesday, 11 July 2023
Time:	6.00 p.m.
Venue:	Committee Room 1 - Birkenhead Town Hall

Contact Officer: Mike Jones, Principle Committee Services Officer
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Please note that public seating is limited therefore members of the public are encouraged to arrive in good time.

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

AGENDA

1. **WELCOME AND INTRODUCTION**
2. **APOLOGIES**
3. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

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

4. **MINUTES (Pages 1 - 4)**

To approve the accuracy of the minutes of the meeting held on 21 February 2023.

5. PUBLIC QUESTIONS

5.1 Public Questions

Notice of question to be given in writing or by email by 12 noon, Wednesday 5 July to the Council's Monitoring Officer via this link: [Public Question Form](#) and to be dealt with in accordance with Standing Order 10.

For more information on how your personal information will be used, please see this link: [Document Data Protection Protocol for Public Speakers at Committees | Wirral Council](#)

Please telephone the Committee Services Officer if you have not received an acknowledgement of your question by the deadline for submission.

5.2 Statements and Petitions

Statements

Notice of representations to be given in writing or by email by 12 noon, Wednesday 5 July, to the Council's Monitoring Officer (committeeservices@wirral.gov.uk) and to be dealt with in accordance with Standing Order 11.

Please telephone the Committee Services Officer if you have not received an acknowledgement of your question/statement by the deadline for submission.

Petitions

Petitions may be presented to the Board if provided to Democratic and Member Services no later than 10 working days before the meeting, at the discretion of the Chair. The person presenting the petition will be allowed to address the meeting briefly (not exceeding three minute) to outline the aims of the petition. The Chair will refer the matter to another appropriate body of the Council within whose terms of reference it falls without discussion, unless a relevant item appears elsewhere on the Agenda. If a petition contains more than 5,000 signatures, it will be debated at a subsequent meeting of Council for up to 15 minutes, at the discretion of the Chair. Please give notice of petitions to committeeservices@wirral.gov.uk in advance of the meeting.

5.3 Questions by Members

Questions by Members to dealt with in accordance with Standing Orders 12.3 to 12.8.

**6. EXTERNAL AUDIT PLAN MERSEYSIDE PENSION FUND 2022-23
(Pages 5 - 28)**

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**7. STATEMENT OF ACCOUNTS 2022/23 – MANAGEMENT
QUESTIONS (Pages 29 - 68)**

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**8. LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
(Pages 69 - 76)**

9. MEMBERS' LEARNING AND DEVELOPMENT (Pages 77 - 86)

**10. MERSEYSIDE PENSION FUND BUDGET OUT-TURN 2022/23 AND
FINAL BUDGET 2023/24 (Pages 87 - 96)**

**11. APPOINTMENTS TO EQUITY PROTECTION FRAMEWORK (Pages
97 - 100)**

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12. WIRRAL LOCAL PENSION BOARD MINUTES (Pages 101 - 108)

13. MINUTES OF WORKING PARTY MEETINGS (Pages 109 - 124)

14. NORTHERN LGPS UPDATE (Pages 125 - 140)

**15. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE
PUBLIC**

The following items contain exempt information.

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

16. APPOINTMENTS TO EQUITY PROTECTION FRAMEWORK EXEMPT APPENDIX (Pages 141 - 148)

Terms of Reference

The terms of reference for this committee can be found at the end of this agenda.

Audio/Visual Recording of Meetings

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

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

PENSIONS COMMITTEE

Tuesday, 21 February 2023

Present:

Councillor P Cleary (Chair)

Councillors	C Povall	A Gardner
	G Davies	Jason Walsh
	H Collinson	C Carubia
	B Kenny	A Wright

Councillors T Cardwell, Liverpool Council
Lappin, Sefton Council

17 WELCOME AND INTRODUCTION

The Chair welcomed everyone and read out the webcasting notice.

18 APOLOGIES

Apologies for absence had been received from:

- Councillor Tom Anderson
- Councillor Karl Greaney
- Councillor Joe Walsh

19 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Tom Cardwell	Personal interest as his mother is a member of pension fund
Councillor Helen Collinson	Pecuniary interest by virtue of her being a Deferred Member of Merseyside Pension Fund and her daughter was an active member of the Fund.
Councillor George Davies	Personal interest as his wife was a member of Merseyside Pension Fund.
Councillor Andrew Gardener	Pecuniary interest by virtue of being a member of Merseyside Pension Fund.
Councillor Brian Kenny	Personal interest as his fiancée was a member of Merseyside Pension Fund.
Paulette Lappin	Personal interest as a member of the fund
Councillor Cherry Povall	Personal interest as her daughter was a member of the Merseyside Pension Fund.

20 MINUTES

Resolved – That the minutes of the Pensions Committee meeting held on 14 December 2022 be agreed as a correct record.

21 PUBLIC QUESTIONS

No questions, statements or petitions had been received.

22 **LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE**

The Head of Pensions Administration for Merseyside Pension Fund presented the report of the Director of Pensions which informed Members that following a review of the classification of the Further Education (FE) sector - FE colleges, sixth form colleges and designated institutions - and their subsidiaries in England, the Office for National Statistics (ONS) had reclassified colleges and their subsidiaries as public sector bodies. Confirmation was awaited as to whether a government guarantee will be provided for their liabilities to the Pensions Fund. Once certain, the funding strategy would be reviewed.

Resolved – That the outcome of the Office for National Statistics review of the Further Education sector and the implications for the Local Government Pension Scheme be noted.

23 **TREASURY MANAGEMENT POLICY FOR 2023/24 AND ANNUAL REPORT FOR 2021/22**

The Head of Finance & Risk for Merseyside Pension Fund introduced the report of the Director of Pensions which requested approval of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2023/24. It was noted that there were no changes from the previous year.

Resolved – That the treasury management policy statement and the treasury management practices for Merseyside Pension Fund for the financial year 2023/24 be approved.

24 **MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2023/24**

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which requested that Members approve the budget for Merseyside Pension Fund (MPF) for the financial year 2023/24. It was noted that the budget was lower than the previous year on account of lower investment management fees being forecast.

Resolved – That

- (1) the budget for 2023/24 be approved (subject to review of charges from the administering authority for support services).**
- (2) a further report on the outturn for 2022/23 with finalised estimates, in particular for departmental & central support charges and any known changes in supplies and services for 2023/24, be presented to Members of Pensions Committee at a future meeting.**

25 **MERSEYSIDE PENSION FUND AUTHORISED SIGNATORIES**

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which set out proposed changes to authorised signatories at Merseyside Pension Fund (MPF) following the appointment of the Director of Finance and a review of the current signatories against business needs. The report described the different requirements for various institutions and functions, including the banks,

custodian, and overseas pensions payment agent, as well as the granting of power of attorney where appropriate. This report also formed a part of the Fund's scheme of delegation and set out the management and authorisation arrangements, for the avoidance of doubt, by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction. It was noted that there was only one change in the authorised signatories which was the addition of Wirral Council's Director of Finance following his appointment.

Resolved – That

- (1) the arrangements set out in section 3 of this report in relation to the internal control arrangements at Merseyside Pension Fund be approved.**
- (2) the officers designated in section 3 of this report as authorised signatories for Merseyside Pensions Fund be approved.**

26 WIRRAL LOCAL PENSION BOARD MINUTES

The Director of Pensions introduced his report which provided Members with the draft minutes of the previous meeting of the Wirral Local Pension Board.

The Chair thanked the Board and noted that minute 11 indicated that the Draft Funding Statement and Actuarial Valuation represented a very positive approach and position for both the Fund and Employers, and that the positive relationship between the Fund and employers was praised.

Resolved – That the minutes of the Wirral Local Pension Board be noted.

27 MINUTES OF WORKING PARTY MEETINGS

The Director of Pensions introduced his report which provided Members with the minutes of meetings of Working Parties held since the previous Committee meeting.

Resolved – That the minutes be approved.

28 PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which requested that Members approve the write off of £900,575.41 of irrecoverable rent arrears from the Fund's property portfolio. It was noted that the annual property rental income for 2021/22 was £32.1 million; all possible actions had been taken to recover the debt; and the write off request was for three tenants that had gone into administration or liquidation. It was also noted that the position was exacerbated by the Covid-19 pandemic.

Resolved – That the write off of uncollectable property rental income of £900,575.41 be approved.

29 EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely

disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

30 **PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS EXEMPT
APPENDIX**

Resolved – That the exempt appendix be noted.



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	EXTERNAL AUDIT PLAN MERSEYSIDE PENSION FUND 2022-23
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to inform Committee Members of the plan for the external audit of the Fund's statutory financial statements for 2022/23.

Merseyside Pension Fund is required to subject its financial statements to external scrutiny before a final version is published to ensure compliance with statutory requirements. This scrutiny role will be carried out by the Council's appointed auditors, Grant Thornton. During the summer Grant Thornton will undertake their audit of the relevant financial activities and provide verification of the Pension Fund's financial statements. The results of this audit will be reported back to the Committee.

The purpose of the Audit Plan is to direct and communicate the audit approach to those charged with governance. The Audit Plan considers the risks to the audit in forming the Audit Opinion and details the approach to addressing the key areas of the Fund's financial statements.

The Council's external auditors have produced the Audit Plan for their statutory audit of Merseyside Pension Fund 2022-23.

The External Audit Plan can be found as an appendix to this report.

RECOMMENDATIONS

The Pension Committee is asked to note the external audit plan for 2022/23 as prepared by Grant Thornton.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

- 1.1 The Audit Plan sets out the work the Pension Fund Auditors, Grant Thornton, will be carrying out in their statutory audit on the Pension Funds financial statements and arrangements. The review of the Audit Plan supports Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process and forms part of the governance arrangements.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report as scrutiny of the audit process by those charged with governance is an audit requirement.

3.0 BACKGROUND INFORMATION

- 3.1 Merseyside Pension Fund is required to subject its financial statements to external scrutiny before a final version is published to ensure compliance with statutory requirements.
- 3.2 Grant Thornton have been appointed as the Council's independent external auditors. Their annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work.
- 3.3 The purpose of the Audit Plan is to direct and communicate the audit approach to those charged with governance. The Audit Plan considers the risks to the audit in forming the Audit Opinion and details the approach to addressing the key areas of the Fund's financial statements.
- 3.4 The results of this audit, including the opinion on the Funds Annual Statement of Accounts and Annual Report will be reported back to the Committee.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The audit fees will be met from within the revenue budget of the Pension Fund and IAS 19 assurance letter fees will be recharged to relevant admitted bodies. The fees are set out in the Audit Plan.

5.0 LEGAL IMPLICATIONS

- 5.1 The Council has a statutory duty to produce annual accounts, this report provides Members with an understanding of management processes and the Fund's oversight in particular areas that could have a significant impact upon the financial statements.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

- 6.1 There are no additional resource implications arising from this report.

7.0 RELEVANT RISKS

- 7.1 Grant Thornton will complete a risk-based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts.
- 7.2 If any concerns identified by Grant Thornton are not addressed by the Pension Fund and the Council, then there is a risk that the Council will not be able to meet its statutory requirements in respect to the Statement of Accounts.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

- 9.1 The content and/or recommendation contained within this report have no direct implications for equality.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are no environmental or climate implications arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

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APPENDICES

Grant Thornton External Audit Plan 2022/23.

BACKGROUND PAPERS

External Audit Plan 2022/23

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	27 June 2023 27 June 2022 28 June 2021
Pension Committee	22 June 2022 22 June 2021

Merseyside Pension Fund External Audit Plan

Year ending 31 March 2023

7 June 2023

Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters



National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment.

The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with management.
- We will continue to provide you and your Audit & Risk Management Committee with sector updates providing our insight on issues from a range of sources and other sector commentators
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Risk Management Committee).

The audit of the financial statements does not relieve management or the Audit & Risk Management Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls

Valuation of Level 3 Investments

Valuation of Directly held property

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £97.016m (PY £96.496m) for the Pension Fund, which equates to 0.9% of your gross investment assets as at 31 January 2023. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. We have set performance materiality at 75% of headline materiality (£72.762m).

Clearly trivial has been set at £4.850m (PY £4.825m).

Audit logistics

Our interim visit will take place in March 2023 and our final visit will take place during July – September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £51,225 (PY: £48,000) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 Fraud in Revenue and Expenditure Recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We have also rebutted the presumption of fraud in expenditure recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Metropolitan Borough Council mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Merseyside Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' [ISA (UK) 315]

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	<p>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£2,883 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available review investment manager service auditor report on design effectiveness of internal controls.
Valuation of Directly held property	<p>The Fund revalues its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£568 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write out to them and discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test, on a sample basis, revaluations made to ensure they have been input correctly into the Fund's financial records • where available review investment manager service auditor report on design effectiveness of internal controls.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other matters

Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
- Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross investment assets as at 31/01/2023 for the Pension Fund. Materiality at the planning stage of our audit is £97.016m, which equates to 0.9% of your gross investment assets as at 31/01/2023.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified the Fund Account as a statement where we will apply a lower materiality level, as these are disclosures which we deem users of the accounts to be interested in and paying pensions and collecting contributions is a core aspect of what a LGPS fund does. – We have set Fund account materiality at 10% of gross expenditure based on prior year expenditure. This equates to £43.822m

Our approach to materiality

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
	<p>Other communications relating to materiality we will report to the Audit & Risk Management Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit & Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.850m (PY £4.825m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pension Committee and the Audit & Risk Management Committee to assist them in fulfilling its governance responsibilities.</p>

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Financial Statements	£97.016m	<p>This equates to 0.9% of gross investment assets at 31/1/23. In setting materiality we consider:</p> <ul style="list-style-type: none"> • The ownership structure of the Fund • The control environment of the Fund • The Fund's business environment • Whether the Fund has any complex investment arrangements • Any other sensitivities that would require materiality to be reduced
Materiality for specific transactions, balances or disclosures (Fund Account)	£43.822m	This equates to 10% of prior year gross operating costs.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite	Financial reporting	<ul style="list-style-type: none"> Detailed ITGC assessment (design and implementation of controls)
Altair	Member Data Contributions and Benefits payable	<ul style="list-style-type: none"> Detailed ITGC assessment (design and implementation of controls)

Audit logistics and team



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Sarah Ironmonger, Key Audit Partner and Engagement Lead

Sarah leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Pension Fund.



Stuart Basnett, Engagement Manager

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



Curtis Wallace, Engagement Incharge

Curtis assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He supervises and co-ordinates the day to day running of the audit.

Audited Entity responsibilities

Where audited entities do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Merseyside Pension Fund to begin with effect from 2018/19. The scale fee agreed in the contract was £28,399. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Fund and Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with Management.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Merseyside Pension Fund Audit	£51,249	£48,000	£51,225
Total audit fees (excluding VAT)	£51,249	£48,000	£51,225

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Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

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

In this context, we disclose that:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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Service	Fees £	Threats	Safeguards
Audit related			
IAS 19 Assurance Letters for Admitted Bodies (15 Expected)	£25,500 (£6,000 base fee + £1,100 per letter + £3,000 triennial valuation assurance)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is expected to be £25,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

Communication of audit matters with those charged with governance

Our communication plan

	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	STATEMENT OF ACCOUNTS 2022/23 – MANAGEMENT QUESTIONS
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to request members review and endorse the management responses to questions posed by the Fund's external auditors, Grant Thornton.

Grant Thornton, as part of their audit of the Fund's Statement of Accounts for 2022/23 have asked management to respond to a series of questions.

Fund officers have completed the questionnaire prepared by Grant Thornton and present it to Members, to support Members' responsibilities in relation to the financial reporting process. This will inform the auditor's risk assessment, where the auditor is required to make inquiries of Pensions Committee under auditing standards.

The questionnaire provides members with an understanding of management processes and the Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Related Parties
- Going Concern
- Accounting Estimates

The completed questionnaire can be found as an appendix to this report.

RECOMMENDATIONS

That the Pensions Committee be recommended to review and endorse the management responses to questions posed by the Fund's external auditors, Grant Thornton.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

- 1.1 The review and endorsement of the management responses to questions posed by the Fund's external auditors supports Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process and forms part of the governance arrangements.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report. The review and endorsement of the management responses to questions posed by the Fund's external auditors supports Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process and forms part of the governance arrangements.

3.0 BACKGROUND INFORMATION

- 3.1 The Fund is statutorily required to prepare and publish financial statements, they are published within the Council's financial statements as an appendix and within the Fund's annual report.
- 3.2 The Fund has many management processes and oversight to ensure its financial statements are compliant with relevant requirements and to reduce the risk of error or misstatement.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report

5.0 LEGAL IMPLICATIONS

- 5.1 The Council has a statutory duty to produce annual accounts, this report provides Members with an understanding of management processes and the Fund's oversight in particular areas that could have a significant impact upon the financial statements.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

- 6.1 There are no additional resource implications arising from this report.

7.0 RELEVANT RISKS

- 7.1 This report provides Members with assurances that management processes and the Fund's oversight in particular areas are adequate to reduce the risk of error in the accounts, by ensuring a clear framework for financial reporting, consistent with guidance.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 The content and/or recommendation contained within this report have no direct implications for equality.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environmental or climate implications arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

REPORT AUTHOR: Donna Smith

Head of Finance & Risk

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APPENDICES

Grant Thornton Questionnaire with management responses.

The PDF file below may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact donnasmith@wirral.gov.uk if you would like this document in an accessible format.

BACKGROUND PAPERS

CIPFA – Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pension Committee	22 June 2022

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Informing the audit risk assessment for Merseyside Pension Fund 2022/23

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Accounting Estimates - General Enquiries of Management	X
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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Merseyside Pension Fund's external auditors and Merseyside Pension Fund's Pensions Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Pensions Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Pensions Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Pensions Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pensions Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pensions Committee and supports the Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Funds oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Merseyside Pension Fund's management. The Pensions Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>Investment Valuations</p> <p>Global investment markets have been particularly volatile during 2022 in response to significant political and geographical events, including the Russia-Ukraine war, lockdowns in China, high inflation and slowing economic growth. These changes have adversely affected the value of the Fund's investment portfolio despite careful risk management. Market volatility has continued during 2022/23 with a £700m reduction in asset values between 31 March 2022 and 31 December 2022, reducing the Fund value from £11.0bn to £10.3bn.</p> <p>Contributions</p> <p>A number of our employers paid their contributions upfront for a 3 year period at the beginning of 2020/21, consequently contribution income for 2022/23 will be significantly lower than 2020/21 financial year.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Pension Fund?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies adopted by MPF have been reviewed and are considered appropriate.</p>

General Enquiries of Management

Question	Management response
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> <p>Page 39</p>	<p>The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.</p> <p>Forward currency contracts are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling to manage FX risk.</p> <p>Equity option contracts are used by the Fund to protect it from falls in value in its main investment markets.</p> <p>Total return swap contracts are used by the Fund to rebalance the investment portfolio to manage investment exposure.</p> <p>The Fund's external bond managers make use of derivatives within commingled bond funds and LDI-related funds.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Management are not aware of any significant transactions outside the normal course of business.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None
6. Are you aware of any guarantee contracts? If so, please provide further details	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by Merseyside Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>External solicitors are used for investment related activities, for example, rent reviews and new property lettings as well as legal documents in relation to private market assets. During 2022/23, MPF used the following external solicitors appointed using procurement frameworks:</p> <p>Brabners, DWF, Pinsent Masons, Gowling, Brodies, Eversheds, KPMG</p>

General Enquiries of Management

Question	Management response
9. Have any of the Merseyside Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Aon Hewitt – Strategic Investment Consultant (part year) Reddington – Strategic Investment Consultant (part year) Mercer – Actuary Services CBRE Capital Advisors – Strategic Property Advisors CBRE Asset Services – Property Management Pensions Investments Research Consultants – Responsible Investment Lexlea – Independent Investment Advisor Tatton Consulting Services – Independent Investment Advisor Gowling, Brabners, DWF, Bruce Gillingham Pollard, Grant Mills Wood, AS Retail Property Ltd, CBRE, Legat Owen – Property Lease Reviews</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>Review undertaken and assets identified with potential credit losses are:</p> <p>Property rental income General accounts receivable</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Pensions Committee and management. Management, with the oversight of the Pensions Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pensions Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Merseyside Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Pensions Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pensions Committee oversees the above processes. We are also required to make inquiries of both management and the Pensions Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Merseyside Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Has Merseyside Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Merseyside Pension Fund's risk management processes link to financial reporting?</p>	<p>Yes, none identified.</p> <p>Regular risk assessments are undertaken at MPF including the risk of fraud, with significant risks documented within the risk register, which is formally reviewed every 6 months and reported to the Governance & Risk Working Party and Pensions Board. The risk register is also a standing agenda item at the monthly management meeting (FOG). A robust control environment exists at MPF, with strong and effective internal controls (structure, SOD, authorisation etc) to mitigate risks, these are documented within procedures, workflows, compliance manual and evidenced by the internal audit reports. MPF has an agreed SLA with Internal Audit with 150 audit days assigned to the Fund, in recognition of the complexities of a large Pension Fund. Management regularly request new systems/processes to be reviewed by internal audit to independently assess and ensure a robust control environment is maintained. MPF ensure there is appropriate operational due diligence on appointment and ongoing monitoring programme of external investment management mandates. There is an ongoing review of AAF106 assurance reporting on internal controls for service organisation used by MPF. MPF staff undertake the corporate fraud awareness training. A robust budget monitoring process is in place. No fraud risks were identified for 2022/23.</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Investments Transfers out Accounts payable</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Merseyside Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>No</p>

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Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Management communicate to those charged with governance through various reports to GRWP, IMWP, Pensions Committee & Pensions Board. The risk register is presented to GRWP and Pensions Board. The Chief Internal Auditor prepares an annual report on MPF's control environment and activities at MPF and presents this along with the audit plan to GRWP and Pensions Board.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations Merseyside Pension Fund where fraud is more likely to occur?	No, however, there is an inherent risk of fraud in all pension schemes. The Pensions Regulator identifies, and the Fund continues to be concerned about pension scams and cyber-security. Fund practices continue to be strengthened and monitored; these are inherent sector risks rather than MPF specific risks. A cyber security internal audit was requested during 2022/23 by management to provide assurances to management.
6. What processes do Merseyside Pension Fund have in place to identify and respond to risks of fraud?	MPF has a robust internal control environment including separation of duties to mitigate fraud risks. Continual review of due diligence of transfer out processes in compliance with TPR, Pension Scam Industry Group and LGA guidance on safeguarding members against fraud. Mortality screening. Participation in the National Fraud Initiative. A comprehensive internal audit plan for MPF under the agreed SLA.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Merseyside Pension Fund including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The overall control environment is assessed as being robust. This is concluded from management reviews, and assurances gained from outcomes of internal and external audit work.</p> <p>Internal Audit reports throughout 2022/23 have found that there is a sound system of control in place, and that those controls are consistently applied and fully effective with no significant weaknesses identified. The management team at MPF continues to ensure identified risks are effectively managed and the recommendations emanating from the audit work are consistently and effectively implemented within the agreed timescales. Policies and procedures are determined to ensure there is a robust control environment to help prevent, deter or detect fraud</p> <p>There are no areas where controls may be overwritten or inappropriate influence over the financial reporting processes to achieve finance targets.</p> <p>Compliance Manual for staff undertaking investment-related activity.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No areas identified.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Merseyside Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The culture and ethical framework at Wirral Council mean that all forms of fraud are seen as unacceptable. Staff are encouraged to report to senior managers any concerns they have or anything unusual.</p> <p>Wirral Council and MPF policies and procedures, employee code of conduct, Whistleblowing Policy, team meetings, Senior Manager briefings, inductions, intranets, Procurement rules and procedures (CPRs)</p> <p>Many officers are members of professional bodies who also have ethical and professional standards that must be adhered to.</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no posts considered to be high risk from a fraud and corruption perspective due to the internal control framework in place.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None identified in declarations received.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Pensions Committee?</p> <p>How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>In assisting the Scheme Manager, the Pension Board has a role in reviewing the Fund's governance arrangements, the control environment, policies and practices which includes fraud issues and risks.</p> <p>There is a Governance & Risk Working Party that all members of Pensions Committee are part of, that meets twice yearly.</p> <p>The risk register is reported to GRWP.</p> <p>The Chief Internal Auditor prepares an annual report on MPF control environment and activities at MPF and the audit plan for the following year and presents this to GRWP, members of Pensions Committee has direct access to the Chief Internal Auditor and can ask questions of audit or management. This report will be presented to a future GRWP for 2022/23.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Pensions Committee, is responsible for ensuring that Merseyside Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Pensions Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Merseyside Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?</p>	<p>Robust policies and procedures with a strong internal control environment.</p> <p>Additional assurances obtained by the Internal Audit plan.</p> <p>The Pensions Regulator has a regulatory oversight role for LGPS and MPF is required to undertake a compliance review of compliance with Number 14 Code of Practice.</p> <p>Fund officers sit on and participate in industry bodies e.g SAB Investment, Governance & Engagement Committee, PLSA LA Committee.</p> <p>In assisting the Scheme Manager, the Pension Board has a role in reviewing the Fund's governance arrangements, the control environment, policies and practices.</p> <p>No regulatory changes are anticipated to have a significant impact on the Fund's financial statements</p>
<p>2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Regular reports are taken to Pensions Committee and working parties. The Chair of Pensions Board reports to Pensions Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>There have not been any instances of non-compliance with laws and regulations since 1 April 2022 with an on-going impact on the 2022/23 financial statement.</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None
5. What arrangements does Merseyside Pension Fund have in place to identify, evaluate and account for litigation or claims?	Actual or potential litigation or claims would be reported to management team meeting and to those charged with governance. Legal and other professional advice would be sought as required.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None

Related Parties

Matters in relation to Related Parties

Merseyside Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Merseyside Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Fund or of any body that is a related party of the Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Merseyside Pension Fund's 2022/23 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Merseyside Pension Fund whether Merseyside Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no changes to related parties.</p>
<p>2. What controls does Merseyside Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Members of Pensions Committee are required to complete an annual declaration. Senior Officers of the Fund and all investment team officers are required to complete an annual declaration. All declarations received are assessed for inclusion within the financial statements related party note.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>All Fund activities and transactions are in accordance with Wirral Council and MPF policies and procedures, including Scheme of delegation, contract procedures rules, MPF's compliance manual and conflicts of interest policy.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All Fund activities and transactions are in accordance with Wirral Council and MPF policies and procedures, including Scheme of delegation, contract procedures rules, MPF's compliance manual and conflicts of interest policy.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis of accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Merseyside Pension Fund will no longer continue?</p>	<p>Horizon scanning, keeping abreast with changes to the scheme and potential future changes.</p> <p>Review and respond to government consultations. Fund officers sit on and participate in industry bodies e.g SAB Investment, Governance & Engagement Committee, PLSA LA Committee.</p> <p>NLGPS meeting with key stakeholders.</p> <p>Regular cash management and liquidity reviews.</p> <p>Triennial valuations assessment of duration of liabilities and funding level.</p>
<p>2. Are management aware of any factors which may mean for Merseyside Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>None</p>
<p>3. With regard to the statutory services currently provided by Merseyside Pension Fund, does Merseyside Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Merseyside Pension Funds to cease to exist?</p>	<p>Merseyside Pension Fund expects to continue to deliver statutory services for the foreseeable future.</p>

Going Concern

Question	Management response
<p>4. Are management satisfied that the financial reporting framework permits Merseyside Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, management are satisfied that the financial reporting framework permits MPF to prepare its financial statements on a going concern basis. Management are satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Pensions Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Pensions Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The identification of transactions, events and conditions begins with an assessment of the existing accounting estimates. These are re assessed and revised for the year that is being closed. The requirement for new estimates are identified through the closedown process by on-going assessment of accruals with team members and assessment of external plus internal financial influences and factors.</p> <p>The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice.</p> <p>Private Equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p> <p>Page 59</p>	<p>Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible, external fund management use the best available data.</p>
<p>2. How does the Fund's risk management process identify and address risks relating to accounting estimates?</p>	<p>The Fund's Finance team review accounting estimates to ensure they are reasonable.</p> <p>The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>The Fund's Finance team review accounting estimates to ensure they are reasonable during the planning stages of year end.</p> <p>The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>The Funds Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.</p> <p>Internally prepared estimates are reviewed against actuals once known and consideration given to any changes required for preparing future estimates.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>No changes were considered necessary.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Property valuations are undertaken by independent Valuers appointed under CPRs where skill and knowledge have been evaluated.</p> <p>Unquoted investment assets in which MPF invests, undergo a rigorous due diligence process by the Fund's Investment Team to reach the decision to invest and a legal agreement entered into. The internal investment team continues to undertake ongoing monitoring of these Funds through the life of the investment.</p> <p>Internal estimates are undertaken by senior officers at the Fund, whose skills and knowledge have been assessed on appointment and hold relevant professional qualifications, as required.</p>
<p>7. How does the Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices. Any concerns will be raised with service providers.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.</p> <p>All assurance reports on internal controls are reviewed by Fund officers when/if available; any concerns will be raised with service providers.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Please see question 1 response.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Accounting estimates are made in accordance with IASs/IFRSs/LA Code and Generally Accepted Accounting Practices. Management consider local circumstances against available guidance and best practice and consider estimates are reasonable and proportionate.
12. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Set out in this document and reported to Pensions Committee. Previous arrangements considered reasonable and adequate, with no previous issues reported for example by external or internal audit.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Directly held Property	Valued at fair value at the year-end using independent external Valuers in accordance with the royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards (the RICS Red Book).	Management discuss and agree assumptions to be used and inputs into the valuation process.	External Independent Property Valuer.	The Fund's Investment Consultants have provided the Fund with their assessment of the potential variance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of level 2 investments (unquoted equity, Income bonds, unit trusts, pooled funds and derivatives)	Fair valuation of assets in line with accounting standards, GAAP and industry practice	Reliance on the work of experts, including independent auditor.	Custodian and Fund Managers	The Fund's Investment Consultants have provided the Fund with their assessment of the potential variance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of level 3 investments (unquoted and private equities)	Unquoted equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	For unlisted investments wherever possible valuations are obtained via the Independent Administrator.	Custodian and Fund Managers	The Fund's Investment Consultants have provided the Fund with their assessment of the potential variance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of level 3 investments (CONTINUED) Page 67		Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.			





PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides an overview of changes affecting the future administration and governance of the Local Government Pension Scheme (LGPS).

RECOMMENDATION/S

That the Pensions Committee be recommended to note the administration and governance changes to the LGPS, to ensure continued compliance with legislation, statutory guidance, and industry codes of practice.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to assist in ensuring the effective and efficient governance and administration of the Scheme.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing Pensions Committee of industry developments.

3.0 BACKGROUND INFORMATION

Care Revaluation Date

- 3.1 On 9 March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the consultation issued in February 2023, setting out proposals to change the annual revaluation date for the LGPS from 1 April to 6 April.
- 3.2 The response confirmed that the change would take place and on the same day the LGPS (Amendment) Regulations 2023 were laid (coming into effect on 31 March 2023).
- 3.3 The primary purpose of this change to the annual revaluation date is to remove the impact of inflation from annual allowance calculations which should only reflect the increase in a member's pension benefits above inflation for the pension input period; that is, the period over which pension growth is measured.
- 3.4 Historically, the government introduced a directive on 8 July 2015 to realign the pension input period with the tax year by April 2016, this inadvertently included inflation within the assessment of annual pension growth for members of public sector pension schemes. To date the impact has been negligible because inflation has been relatively low and consistent until very recently.
- 3.5 The amendment to the revaluation date has removed this unintended impact on annual allowance calculations and will reduce the number of LGPS members who would have been affected by an Annual Allowance Tax Charge for the 2022/23 tax year because of the recent high rate of inflation.

Annual and Lifetime Allowance Changes

- 3.6 The Spring Budget on 15 March 2023 announced several major changes to the taxation of pension benefits. These changes came into effect from 6 April 2023 and are summarised below:
- an increase to the annual allowance from £40,000 to £60,000, and the money purchase annual allowance from £4,000 to £10,000

- an increase to the adjusted income level for the tapered annual allowance from £240,000 to £260,000 and the minimum tapered annual allowance from £4,000 to £10,000
- The abolition of lifetime allowance charges for benefit crystallisation events occurring on or after 6 April 2023
- A change to the taxation of any lifetime allowance excess lump sum to be at marginal rate not 55%, with similar changes to serious ill-health or death benefit lump sum payments.

3.7 Alongside the above changes it was confirmed that the maximum tax-free lump sum available to member would remain at 25% of current lifetime allowance amount of £1,073,100.

3.8 These changes will be welcomed by higher earners in the LGPS, as well as some middle-income earners with long local government careers who receive a pay rise.

3.9 Although it should be remembered that the majority of LGPS members will not be affected by these changes and that the average LGPS pension in payment is in the region of £5,000 per annum.

Government response to McCloud Remedy

3.10 On 6 April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) issued its response to the 2020 consultation on Amendments to the Local Government Pension Scheme statutory underpin.

3.11 The response confirms the main changes to the underpin that were proposed in the 2020 consultation as follows:

- underpin to be extended to younger members in scope.
- members will be in scope of underpin protection if they were active in the LGPS or another public service pension scheme on or before 31 March 2012,
 - were an active member of the career average scheme,
 - did not have a disqualifying gap in service (more than 5 years), and
 - leave active membership with a deferred or immediate entitlement to a pension, or they die in service.
- underpin service will be from 1 April 2014 to the earlier of 31 March 2022, the date of leaving active service, or reaching final salary normal pension age.

3.12 Key sections of the response include:

- proposed changes in respect of transfers to ensure consistency with other public service pension schemes, requiring past transfers to be revisited in terms of award and cash payments.

- annual benefit statements will include estimated underpin values, to take effect for statements issued from the 2024/25 scheme year.

3.13 A further consultation is to be held on draft regulations and a number of areas where final decisions have yet to be made, including whether service must be aggregated to qualify for the underpin, remaining issues regarding transfers and pension sharing, along with a proposal to enable underpin protection to continue to build up following flexible retirement.

3.14 Final regulations will be made later in the year expected to become effective from 1 October 2023 backdated to 1 April 2014.

DLUHC intends to work with the Scheme Advisory Board (SAB) to set up a working group to consider the statutory and SAB guidance needed to ensure clear and consistent implementation of the remedy across the LGPS.

3.15 A McCloud remedy factsheet for members has been published alongside the consultation response in collaboration with the Scheme Advisory Board (SAB), accessible here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1146603/LGPS_McCloud_factsheet.pdf

3.16 Further member communications are planned by the SAB McCloud Communications Working Group.

State Pension Age Review

3.17 On 30 March 2023, the Department for Work and Pensions (DWP) published its 2023 review of the State Pension Age in compliance with the regulatory framework for government to undertake a regular review in accordance with the Pensions Act 2014.

3.18 The State Pension Age is currently age 66 and will rise to age 67 between 2026 and 2028 before rising again to age 68 between 2044 and 2046.

3.19 At the first review in 2017, the Government accepted the recommendation that subject to further review, the timetable to increase the State Pension age to age 68 should be brought forward to between 2037 to 2039.

3.20 The 2023 DWP review confirms the rise to age 67 between 2026 and 2028 remains appropriate, although, the Government does not intend to change existing legislation to implement the recommendation of the 2017 review at the current time.

3.21 It plans to have a further review within two years of the next Parliament to consider whether the rise to age 68 should occur earlier, while confirming a commitment to the principle of providing 10 years' notice of any changes.

3.22 The Government must publish the next report no later than 29 March 2029.

Pension Dashboard Delay

- 3.23 On 2 March, the Pensions Minister, Laura Trott, issued a written statement announcing delays to the delivery of Pensions Dashboards. The statement explains that the Pensions Dashboards Programme (PDP) will be unable to meet the connection deadlines set out in legislation, and the timeline will need to be revised to allow more time to deliver the complex dashboards infrastructure.
- 3.24 All connection deadlines for schemes will be changing with the potential that the timetable could be delayed for a period of 12 months - potentially extending the connection date for the LGPS from September 2024 to September 2025. A further update from the minister is scheduled to be communicated ahead of the summer recess, although this may not confirm the revised timeline.
- 3.25 Since the written statement, the key message from the Pensions Minister, DWP, PDP and the Pension Regulator is that plans for Dashboards will still go ahead and that all schemes should continue with their dashboard planning and preparations.

TPR New General Code

- 3.26 The Pensions Regulator (TPR) is expected to publish the New General Code, formerly referred to as the Single Code of Practice, in its final form in the next few months. The Code consolidates and revises several existing codes, formalises the requirement for an Effective System of Governance and introduces the process of Own Risk Assessments.
- 3.27 New actuarial, internal audit and risk functions will also be required, and cyber risk stewardship along with climate change will be included in a code of practice for the first time.
- 3.28 The move from one dedicated code for public service pension schemes to a general code for all schemes will require innovative thinking, and the Fund is working with its professional advisers on the most effective approach to assess, implement, and demonstrate compliance with the requirements of the new Code. The initial stage of the workstream has commenced with actions in progress to undertake a gap analysis of current policies against the draft code.

4.0 FINANCIAL IMPLICATIONS

- 4.1 As the proposal to bring forward the date to increase the State Pension Age to 68 did not materialise following the 2023 government review, there will be no immediate impact on the costs of the LGPS due to the alignment of normal pension age with State Pension Age.
- 4.2 The cumulative cost of McCloud across employers participating in the Fund has been assessed by the actuary to be in the region of £100 million, representing 1% of the total Fund liabilities of £10.2 billion, as calculated at the 31 March 2022 triennial valuation.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The change to the annual revaluation date will reduce the burden on Fund Officers to prepare Pension Saving Statements and respond to queries in respect of the 2022/2023 pension input period.
- 6.2 Although, in the short term, the timing of the change has had an impact on Fund resources and software suppliers being required to update calculations and reporting processes, central guidance was provided to Funds to assist in managing the change until systems are updated.
- 6.3 The administrative requirements of the McCloud remedy and the new General Code will be significant with the level of additional resource and professional advisory costs to ensure compliance dependent on the complexity of the final provisions and the timely development of systems to provide bulk calculations.
- 6.4 The changes to the taxation of benefits will necessitate an update of scheme literature, standard letters, and the website. Procedures will need to be reviewed relating to payment and reporting the correct tax on any benefits in excess in excess of the lifetime allowance for any benefit crystallisation events after 6 April 2023.
- 6.5 In its continuing preparations for connection to the Pensions Dashboard, the Fund are engaging with the Fund's system supplier, Heywood Pension Technologies, as the preferred supplier to connect to the secure national digital architecture. As part of this work, Fund Officers are working with the National LGPS Frameworks team to develop a procurement framework for approved Integrated Service Providers.
- 6.6 The Pensions Dashboard Programme and the Pensions Regulator continue to encourage schemes to ensure their member data is ready for connection to the national dashboard infrastructure.
- 6.7 The Fund continues with its programme to move all employers to monthly data collection by March 2024, as this provides timelier member data from employers but also actively integrates into the quality assurance and quality control reports and processes embedded within the operational activities of the administration teams.
- 6.8 For deferred members, the officers continue to work with the Fund's Data Tracing provider to validate postal addresses and to trace members who have moved house without notifying the Fund.

7.0 RELEVANT RISKS

- 7.1 There is a risk of miscommunication and incorrect payment of pension benefits to members if the legislative changes are not implemented in accordance with the revised regulations and guidance with an associated impact on employer costs.

- 7.2 Failure to comply with regulations or a failure to meet revised governance expectations may lead to sanction by the Pensions Regulator, including the possibility of financial penalties and reputational damage.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The changes to administration and governance of the LGPS are consulted on at national level by the relevant government department or the Pensions Regulator.

9.0 EQUALITY IMPLICATIONS

- 9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.
- 9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpsequalitystatement>
- 9.3 DLUHC and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

DLUHC response to the 2020 consultation on Amendments to the Local Government Pension Scheme Statutory Underpin

<https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin/outcome/amendments-to-the->

TERMS OF REFERENCE

- (d) This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Standing Agenda Item	21 February 2023



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	MEMBERS' LEARNING AND DEVELOPMENT
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to update Members on revisions to CIPFA's (the Chartered Institute of Public Finance and Accountancy) guidance on Pensions Knowledge and Skills and to seek approval for officers to prepare an updated learning and development framework.

RECOMMENDATION/S

That the Pensions Committee be recommended to:

1. note the report and the recommended areas of learning and development.
2. approve the updating of the existing learning and development framework to reflect revisions to CIPFA's Knowledge and Skills Framework.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The administration and the investment-related aspects of the Local Government Pension Scheme (LGPS) are technical and complex areas. Good governance is supported by informed decision-making.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 There is an option not to provide training. However, the Pensions Regulator has a clear expectation documented within its Code of Practice for the administration and governance of Public Sector Schemes, that schemes must regularly assess training opportunities to ensure that decision-making and oversight groups have an adequate level of knowledge to carry out their roles effectively.

3.0 BACKGROUND INFORMATION

- 3.1 In recent years there has been a marked increase in the scrutiny of public service pension schemes including the LGPS. The Public Service Pensions Act 2013 introduced new governance legislation, including the requirement for Local Pension Boards to be set up and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 14. Additionally, the Department of Levelling Up, Housing and Communities (DLUHC) and the Scheme Advisory Board (SAB) have emphasised the need for the highest standards of governance in the LGPS. This includes ensuring that all involved in the governance of public sector funds can evidence they have the knowledge, skills and commitment to carry out their role effectively.
- 3.2 The introduction of Markets In Financial Instruments Directive II (MIFID II) in January 2018 required Committee members to evidence their knowledge in order for MPF to be treated as a professional investor. Also, the Scheme Advisory Board for England and Wales has reviewed governance arrangements for LGPS funds. This project – termed ‘Good Governance’ – addressed stakeholder knowledge and skills. A clear recommendation of the Good Governance project is that the knowledge levels already statutorily required of Board members should also be required of Committee members. These recent events have reaffirmed that LGPS funds should evidence the training provided and current knowledge and understanding levels retained within their Committee and Board.
- 3.3 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.
- 3.4 In June 2021, CIPFA issued two documents providing updated guidance on LGPS knowledge and skills. These are the ‘Code of Practise on LGPS knowledge and skills’ and the ‘Knowledge and Skills framework for LGPS committee members and LGPS officers’. These update and replace the previous Code of Practise and the

separate 2010 Knowledge and Skills frameworks for committee members and officers. This updated guidance has been issued because of the significant enhancements and alterations to the governance and operation of the LGPS in recent years.

- 3.5 As explained above, Pensions Committee has adopted and based its approach to learning and development on the earlier version of the CIPFA Code. The updating by CIPFA of the code and the issuing of a new framework require Pensions Committee to update its policies relating to training to be in accordance with the 2021 CIPFA guidance. The key elements of the revised CIPFA code and framework including the five key principles, the seven statements and eight core technical areas are described below. In line with the scope of the Code, it is proposed that the adoption of this 2021 Code of Practice be applicable to Pensions Committee, Local Pension Board members and also senior fund officers.
- 3.6 The CIPFA guidance anticipates that all LGPS funds will update their training policy considering the content of the 2021 code and framework. The updating of the approach to the learning and development of the members of Pensions Committee, Pension Board and senior fund officers will mean that members of the Committee and board will be required to undertake training and acquire knowledge and skills based on the latest CIPFA guidance.
- 3.7 The delivery of effective and comprehensive training is needed to facilitate the acquisition of necessary knowledge and understanding for those responsible for the governance, decision making and operation of the Pension Fund. Pensions Committee is the primary governance and decision-making body within MPF. However, officers and the Pension Board also have important roles in the overall governance of the Fund. Consequently, the Fund's approach to pensions knowledge and skills must include all of the Pensions Committee, Pension Board and senior fund officers.
- 3.8 In 2010, CIPFA issued its Pensions Knowledge and Skills Frameworks for Members and officers; these included six areas of knowledge and skills identified as core. These were:
- pensions legislative and governance context
 - pensions accounting and auditing standards
 - financial services procurement and relationship management
 - investment performance and risk management
 - financial markets and products knowledge
 - actuarial methods, standards and practices.
- 3.9 This framework for elected members was adopted by Committee as the basis for its training and development programme. A notable omission from the 2010 CIPFA Framework was that pensions administration was not included as a core area of knowledge and skills.

The new CIPFA Pensions Knowledge and Skills Guidance

3.10 In June 2021, CIPFA issued two documents which update and replace firstly the previous Code of Practice on Knowledge and Skills, and, secondly, the separate 2010 Pensions Knowledge and Skills Frameworks for Members and officers. The new Code of Practice on LGPS Knowledge and Skills seeks to “embed the requirements for identifying the adequacy of, acquiring and maintaining, appropriate knowledge and skills”. The 2021 Code of Practice states “every LGPS administering authority should secure adequate resources and appropriate training” having also “set out the broad areas of knowledge required by those responsible for decision making, management, scrutiny or oversight of the LGPS”. CIPFA further indicates that those to whom the Code is applicable include Pensions Committee members, Pension Board members and fund officers. The Code goes on to state “it is hoped that all LGPS administering authorities will adopt this Code as part of their LGPS knowledge and skills policy (or equivalent) as appropriate to their circumstances. It is expected this will be the case for all administering authorities where key LGPS officers are CIPFA professional members”. The 2021 Code of Practice is underpinned by five key principles. These are similar to those in the previous versions of the Code but expanded to reflect the present regulatory and more complex environment within which the LGPS now operates. The five principles which underpin the 2021 Code of Practice are:

1. administering authorities responsible for the administration of the LGPS recognise that effective management, decision-making, governance and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.
2. administering authorities have the necessary resources in place to ensure all staff, members or other persons responsible for the management, decision making, governance and other aspects of the delivery of the LGPS acquire and retain the necessary LGPS knowledge and skills.
3. administering authorities have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements to effectively acquire and retain LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the LGPS.
4. the associated policies and practises are guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA LGPS Knowledge and Skills Framework, while also having regard for overriding legal requirements, The Pensions Regulator and other government guidance.

5. the administrative authority has designated a named individual to be responsible for ensuring that policies are implemented.

3.11 CIPFA recommends that all administering authorities adopt as part of their knowledge and skills framework, seven statements. These are:

1. This LGPS administering authority adopts the key principles of the Code of Practise on LGPS Knowledge and Skills.
2. This LGPS administering authority recognises that effective management, governance, decision-making and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.
3. This administering authority has in place formal and comprehensive objectives, policies and practises, strategies and reporting arrangements for the effective acquisition and retention of LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the LGPS.
4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA LGPS Knowledge and Skills Framework.
5. This administering authority will ensure that it has adequate resources in place to ensure all staff, members or other persons responsible for the management, decision making, governance and other aspects of the delivery of the LGPS acquire and retain the necessary LGPS knowledge and skills.
6. This administering authority will report annually on how its knowledge and skills policy has been put into practise throughout the financial year in the fund's annual report.
7. This administering authority has delegated the responsibility for the implementation of the requirements of the Code of Practice to the appropriate officer who will act in accordance with the administering authority's knowledge and skills policy statement.

3.12 It is recommended that Committee adopts the 2021 Code of Practice on LGPS Knowledge and Skills including the five principles and seven statements set out above.

- 3.13 In June 2021, CIPFA also issued the Knowledge and Skills framework for LGPS committee members and LGPS officers. This replaces the 2010 version. It reflects the latest developments in the area of knowledge and skills for the LGPS at the time of publication. A separate framework remains in place for local pension board members.
- 3.14 The 2021 CIPFA Code and Framework identify eight core technical areas where appropriate knowledge and skills should be achieved and maintained. The eight core areas expand the six core areas identified by CIPFA in 2010. The eight core areas are:
- pensions legislation and guidance
 - pensions governance
 - funding strategy and actuarial methods
 - pensions administration and communications
 - pensions financial strategy, management, accounting, reporting and audit standards
 - investment strategy, asset allocation, pooling, performance and risk management
 - financial markets and products
 - pension services procurement, contract management and relationship management
- 3.15 It is recommended that Pensions Committee adopts the eight core areas of knowledge and skills as those to be covered in its training policy and any other training delivered in accordance with that policy.
- 3.16 The 2021 Framework also provides guidance on the delivery, monitoring, reporting and compliance with the 2021 Knowledge and Skills Framework. This includes:
- Guidance on the training policy that is expected of all LGPS funds by the 2021 CIPFA Code of Practice
 - The delivery of training

- Monitoring and ongoing review of knowledge and skills including recording attendance at training
- Reporting and compliance which includes reference to the fact that the 2021 Code of Practice requires each administering authority to designate a named individual with responsibility for ensuring their policies are implemented.

Learning and Development Opportunities

- 3.17 On occasion, formal training sessions are included in Investment Monitoring Working Parties. Nonetheless, 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.
- 3.18 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), on multiple dates and in multiple locations. While considered essential for new Members, longer serving Members of Pensions Committee may also wish to avail themselves of the course.
- 3.19 Members have access to the LGPS Online Learning Academy (LOLA) as an online training platform providing 'bitesize' learning modules. The varied subject matter provides the ability for individuals to absorb information at their own pace with access to further information on each module for a more in-depth understanding of a particular area.
- 3.20 The course includes six training modules and covers all the key areas to successfully govern the Fund. As well as delivering training support, the training platform tracks the progress of training plans and provides a record of activity. The platform allows participants to 'dip in and out' as and when time allows and it is recommended that completion of the course should be accomplished within the calendar year.
- 3.21 In addition to recommended training set out in 3.16 to 3.18, MPF provides Members with the opportunity to attend a range of virtual and in person LGPS pension-related events. An outline of those known events is attached as an appendix to this report. As other opportunities arise, they will be advised to Members.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The Fund makes a budgetary provision for training. Members will be advised of the costs of events on a case-by-case basis.

5.0 LEGAL IMPLICATIONS

- 5.1 There is a statutory requirement for Pension Boards to evidence current levels of knowledge and understanding and for the Fund to include detailed information on training events offered and attended by elected Members in its annual report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 As set out in section 4.

7.0 RELEVANT RISKS

- 7.1 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 and the requirements under MIFID II. Suitable and effective training and development activity should assist in mitigating this risk.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Training needs assessments are undertaken periodically to assist in the development of learning opportunities.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising from the report. The additional flexibility provided by online learning enhances the training offer to elected members.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are none arising from this report. The increased availability of virtual learning will help to reduce travel.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none arising from this report.

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APPENDICES

Appendix 1 Summary of known training opportunities.

BACKGROUND PAPERS

CIPFA Pensions Knowledge and Skills Framework [Pensions Knowledge and Skills Framework | CIPFA](#)

The Good Governance project [LGPS Scheme Advisory Board - Good Governance \(lgpsboard.org\)](http://lgpsboard.org)

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section A of its Terms of Reference: (a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance of the Fund.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
This is an annual report to Pensions Committee	

APPENDIX 1

<u>MONTH (2023)</u>	<u>EVENT</u>
6-8 June	PLSA Investment Conference, Edinburgh
7 June	Investment Monitoring Working Party.
26 - 28 June	PLSA Local Authority Conference, Gloucester
6 - 8 September	LGC Investment & Pensions Summit, Leeds
6 September	Investment Monitoring Working Party
17-19 October	PLSA Annual Conference, Manchester
15 November	Investment Monitoring Working Party
16 November	Annual Employers Conference
October – December	LGA – LGPS Fundamentals training days; multiple dates & locations tbc
6 - 8 December	LAPFF Annual Conference, Bournemouth
<u>MONTH (2024)</u>	
January	LGPS Governance Conference
March	PLSA ESG conference. Online
March	Investment Monitoring Working Party
March	LGC Conference, Chester



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	MERSEYSIDE PENSION FUND BUDGET OUT-TURN 2022/23 AND FINAL BUDGET 2023/24
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

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

- The out-turn for the financial year 2022/23.
- The finalised budget for the financial year 2023/24.

The actual out-turn for 2022/23 is £18.5m, lower than the original budget approved 22 June 2022 of £25.0m. The underspend is largely due to lower investment management fees, planned projects and areas of work being deferred to 2023/24, and the assumptions used for staffing. The actual out-turn is lower than the projected out-turn reported at Pensions Committee on 21 February 2023.

The 2023/24 budget reported in February has been reviewed with departmental & central charges updated; the finalised 2023/24 budget is £21.3m.

The budget for 2023/24 is lower at £21.3m than £25.0m in 2022/23 primarily due to lower investment management fees being forecast.

RECOMMENDATIONS

That the Pensions Committee be recommended to:

- (1) note the out-turn for 2022/23.
- (2) approve the finalised budget for 2023/24.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The alternative options have not changed since the report in February as below.
- 2.2 Not relevant for this report as the budget setting process and its approval are an essential part of the Fund's governance arrangements. The Local Government Pension Scheme (LGPS) Advisory Board's Good Governance report recommends that LGPS funds set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.
- 2.3 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 Northern LGPS 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.

3.0 BACKGROUND INFORMATION

- 3.1 The headline figures are that, during the financial year 2023/24, it is estimated that MPF will pay £424m in pensions and receive £229m in contributions from employers and employees. The Fund has a value of £10.4bn at 31 March 2023. The proposed administration costs of £21.3m including £12.0m of investment management charges to external managers represent a cost of £143 per member of the scheme or 0.20% of assets under management. Taken separately the external investment management costs are approximately £80 per member or 0.12% of assets under management.
- 3.2 Pensions Committee, at its meeting on 21 February 2023, received an estimate of the out-turn for 2022/23 and it was also agreed that I would report back on the final out-turn. The finalised out-turn is included in appendix 1. The actual out-turn for 2022/23 is lower than the projected out-turn reported in February 2023, due to the number of estimates required for the February report with investment management fees actual spend lower than projected. The overall underspend is largely due to lower investment management fees, budgeted projects and areas of work being deferred to 2023/24 and the assumptions used for staffing, as reported in the February report.

- 3.3 Pensions Committee at its meeting on 21 February 2023 agreed the budget for 2023/24 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.
- 3.4 The finalised budget is included in this report in appendix 1, the budget has been reviewed, with departmental & central recharges updated. As reported in February the budget for 2023/24 is lower at £21.3m, compared to 2022/23, primarily due to lower investment management fees being forecast.
- 3.5 Reduced costs and excellent value for money is a pooling criterion and Investment management fees are a significant element of the Fund's costs. The Fund and Northern LGPS use CEM to benchmark investment management fees and analyse these costs in the context of risk and return, and relative to other LGPS funds and private pension funds internationally. The information is used by the Fund and the Northern LGPS to ensure the effectiveness of the Fund's expenditure in this key area. The CEM benchmarking report for 2022/23 when available, will be reported to Members.

4.0 FINANCIAL IMPLICATIONS

- 4.1 This report includes actual outturn for 2022/23 and the budget changes to that approved in February for 2023/24 and therefore the financial implications are included within this report.
- 4.2 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment performance, investment income and contributions, the full costs are estimated to be £143 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.
- 4.3 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from pooling and increasing the proportion of internally managed assets, over the medium term.

5.0 LEGAL IMPLICATIONS

- 5.1 The LGPS Scheme Advisory Board's Good Governance report recommends that LGPS funds set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

- 6.1 There are no additional resource implications arising directly from this report.

7.0 RELEVANT RISKS

- 7.1 This has not changed since the report in February.

- 7.2 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.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

- 9.1 The content and/or recommendation contained within the report have no direct implications for equality.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are no environmental or climate implications arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

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APPENDICES

The budget for 2023/24 including the out-turn for 2022/23 is attached as appendix 1 to this report.

The original appendix as reported to Members on 21 February 2023 is attached as appendix 2 to this report for information.

BACKGROUND PAPERS

CIPFA – Service Reporting Code of Practice for Local Authorities

TERMS OF REFERENCE

The Pensions Committee is responsible for exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the Merseyside Pension Fund.

In particular, the Committee is charged by full Council:

- (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to

be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee: Pension Fund Budget	21 February 2023 22 June 2022 23 February 2022 22 June 2021 29 March 2021

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Appendix 1

Value of the Fund	£10.4bn	31/03/2023
Investment income Received	£269m	Projected 2023/24
Pensions Paid	£424m	Projected 2023/24
Contributions Received (see note 1)	£229m	Projected 2023/24
Active Contributing members	48,998	31 March 2023
Deferred members	43,429	31 March 2023
Pensioners	56,713	31 March 2023
Total Members	149,140	31 March 2023

	Budget 2022/23 (£)	Actual Out-Turn 2022/23	Budget 2023/24 (£)
Employees			
Pay, NI and Pension	4,026,968	3,519,228	4,669,483
Training	20,000	10,243	20,000
Other Staffing Costs	37,150	24,836	41,756
	4,084,118	3,554,307	4,731,239
Premises			
Rents	206,794	206,796	212,536
	206,794	206,796	212,536
Transport			
Public Transport Expenses	33,370	13,000	36,755
Car Allowances	3,000	1,679	2,000
	36,370	14,679	38,755

Supplies

Furniture and Office Equipment	10,000	827	10,000
Printing and Stationery	13,000	13,577	13,000
Computer Development and Hardware	668,500	495,930	703,500
Postages and Telephones	70,700	65,746	74,500
External Audit	51,249	59,496	50,000
Services and Consultants Fees	1,559,624	889,649	1,468,249
Conferences and Subsistence	28,713	17,402	20,549
Subscriptions	177,004	193,461	211,727
Other	61,572	45,396	65,806
	2,640,362	1,781,484	2,617,731

Third Party

Medical Fees	2,000	1,400	2,000
Bank Charges	12,000	5,021	5,000
Investment Management Fees	16,466,314	10,885,505	11,998,660
Custodian Fees	225,000	175,046	250,000
Actuarial Fees	750,000	1,102,874	750,000
Other Hired and Contracted Services	313,912	468,028	437,274
	17,769,226	12,637,874	13,442,934

Departmental & Central Support Charges

311,015	311,014	283,457
311,015	311,014	283,457

Total Expenditure

25,047,885	18,506,154	21,326,652
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Appendix 2

Value of the Fund	£10.3bn	31/12/2022
Investment income Received	£274m	Projected 2023/24
Pensions Paid	£395m	Projected 2023/24
Contributions Received	£241m	Projected 2023/24
Active Contributing members	46,740	31 March 2022
Deferred members	42,553	31 March 2022
Pensioners	55,254	31 March 2022
Total Members	144,547	31 March 2022

	Budget 2022/23 (£)	Probable Out-Turn 2022/23	Budget 2023/24 (£)
Employees			
Pay, NI and Pension	4,026,968	3,569,020	4,669,483
Training	20,000	11,512	20,000
Other Staffing Costs	37,150	40,684	41,756
	4,084,118	3,621,216	4,731,239
Premises			
Rents	206,794	206,794	212,536
	206,794	206,794	212,536
Transport			
Public Transport Expenses	33,370	12,755	36,755
Car Allowances	3,000	1,691	2,000
	36,370	14,446	38,755

Supplies

Furniture and Office Equipment	10,000	837	10,000
Printing and Stationery	13,000	11,913	13,000
Computer Development and Hardware	668,500	518,613	703,500
Postages and Telephones	70,700	62,755	74,500
External Audit	51,249	51,249	50,000
Services and Consultants Fees	1,559,624	944,474	1,468,249
Conferences and Subsistence	28,713	12,037	20,549
Subscriptions	177,004	190,707	211,727
Other	61,572	40,784	65,806
	2,640,362	1,833,369	2,617,731

Third Party

Medical Fees	2,000	933	2,000
Bank Charges	12,000	6,392	5,000
Investment Management Fees	16,466,314	11,287,453	11,998,660
Custodian Fees	225,000	199,429	250,000
Actuarial Fees	750,000	942,768	750,000
Other Hired and Contracted Services	313,912	451,164	437,274
	17,769,226	12,888,139	13,442,934

Departmental & Central Support Charges

311,015	311,015	311,015
311,015	311,015	311,015

Total Expenditure

25,047,885	18,874,979	21,354,210
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PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	APPOINTMENTS TO EQUITY PROTECTION FRAMEWORK
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report informs Members of a recently completed procurement exercise and seeks approval (subject to the satisfactory conclusion of final checks and legal agreements) for the appointment of investment managers, providing equity overlay risk management strategies, to a framework agreement available to Northern LGPS (local Government Pension Scheme) partner funds.

Appendix 1 to the report, (A report from advisors, bfinance, on the procurement exercise), 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).

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the establishment of the framework as set out in the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The ability to deploy overlay strategies in order to manage investment risks within the Fund is an important element of the Fund's risk management capabilities. Following an OJEU compliant process on behalf of the Northern LGPS, a framework of potential investment managers has been identified.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report. The Financial Regulations require Pensions Committee to approve the framework.

3.0 BACKGROUND INFORMATION

- 3.1 At Pensions Committee in January 2019, Members were advised that officers had undertaken an in-depth review of equity option strategies and that a framework of investment managers able to implement these strategies had been put in place. Under procurement regulations, a framework can be utilised for four years before it needs to be refreshed. With the existing framework arrangements coming to an end this year, officers have taken steps to renew the framework and, following consultation with partner funds, it was agreed that a framework should be put in place for the Northern LGPS, hosted by Wirral Council.
- 3.2 An OJEU compliant procurement exercise has been undertaken advised by bfinance and supported by Wirral procurement. The report, attached at appendix 1, sets out the procurement process, the assessment of tenders and the investment firms recommended for inclusion on the framework.

4.0 FINANCIAL IMPLICATIONS

- 4.1 As set out in the appendix. The tenders were assessed on an 80% Quality/20% Price basis.

5.0 LEGAL IMPLICATIONS

- 5.1 A procurement process according with Wirral's contract procedure rules was undertaken advised by bfinance and supported by Wirral's procurement team.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising directly from this report. Investment firms will be selected to provide overlay services in accordance with the terms of the framework.

7.0 RELEVANT RISKS

- 7.1 Equity overlays can be used for efficient portfolio management in order to mitigate risks arising from the Fund's investment strategy. Overlay strategies may involve the use of derivatives such as forwards, futures, options and swaps and it is important

that expert advice is available in designing, implementing and monitoring suitable structures.

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

8.0 ENGAGEMENT/CONSULTATION

- 8.1 MPF engaged with Northern LGPS (Local Government Pension Scheme) and consulted with its Pooling partner funds in developing the tender specification and undertaking the procurement process. Officers have also engaged with the Fund's actuary who recommends the use of protection strategies and large employers in the Scheme.

9.0 EQUALITY IMPLICATIONS

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are none arising directly from this report. Environmental, Social and Governance matters are a key consideration of MPF's Responsible Investment strategy.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none arising from this report.

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APPENDICES

Appendix 1 Northern LGPS Equity Protection Managers' Framework

The PDF file below may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact peterwallach@wirral.gov.uk if you would like this document in an accessible format.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section G of its Terms of Reference: (g) To award contracts for goods and services relating to the Fund

in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisers (where appropriate).

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP and GRWP meetings are brought to the subsequent Pensions Committee.	

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	WIRRAL LOCAL PENSION BOARD MINUTES
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Pensions Committee with the draft minutes of the previous meeting of the Wirral Local Pension Board.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the minutes of the Wirral Local Pension Board.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

- 1.1 The Wirral Local Pension Board reports to the Administering Authority on its activities and, as a part of that reporting, it is best practice that minutes of its meetings are shared with Pensions Committee on a regular basis.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant to this report. There is an option not to report these board minutes but it would not be best practice. The Board's terms of reference require it to report to Pensions Committee.

3.0 BACKGROUND INFORMATION

- 3.1 The Wirral Local Pension Board was established in 2015 in accordance with section 5 of the Public Service Pensions Act 2013 to assist the Administering Authority in its role as a scheme manager of the Scheme.
- 3.2 The Wirral Local Pension Board reports to the Administering Authority on its activities and, as a part of that reporting, the minutes of its meetings are shared with Pensions Committee.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are no implications arising directly from this report. In scrutinising the governance arrangements and service delivery of the Fund, the Board provides assurance to the administering authority on the efficiency and effectiveness of the Fund's activities.

5.0 LEGAL IMPLICATIONS

- 5.1 It is best practice for the activities of the Pension Board to be reported to the Pensions Committee.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

- 6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

- 7.1 A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory requirements.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are no environmental or climate implications arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 None arising from this report.

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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS

The Public Service Pensions Act 2013

CIPFA: the guide for local pension boards

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of Local Pension Board meetings are brought to the subsequent Pensions Committee meeting.	

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LOCAL PENSIONS BOARD

Wednesday, 22 February 2023

Present: J Raisin (Chair)

R Dawson
P Maloney
D Ridland

R Irvine
L Robinson

17 WELCOME AND INTRODUCTION

The Chair welcomed everyone to the meeting and in particular Matthew Bennett the Director of Finance (and Section 151 Officer) of the Wirral MBC.

18 APOLOGIES

Apologies for absence had been received from:
Geoff Broadhead
Peter Fieldsend
Stefan Van Arendsen

19 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

There were no declarations of interests.

20 MINUTES

Resolved – That, subject to the resolution for Minute 16 stating that the letter is for the Chair of Pensions Committee rather than the Director of Pensions, the minutes of the Local Pensions Board meeting held on 16 December 2022 be approved as an accurate record.

Arising from Minute 5 the Chair thanked the Officers for circulating to all Board Members, in January 2023, the Merseyside Pension Fund Stakeholder Survey on Investment Beliefs 2023.

21 LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE

The Head of Pensions Administration for Merseyside Pensions Fund (MPF) introduced the report of the Director of Pensions which provided a copy of an update report on developments in the Local Government Pension Scheme (LGPS) taken to Pensions Committee since the previous Board meeting. The report included the review of the Further Education sector where a decision was awaited on whether the Government would provide a guarantee to stand behind the sector's pension liabilities. Until that was confirmed, MPF would

continue to take a prudent approach to funding and would review should a central government guarantee be provided.

Resolved – That the report be noted.

22 MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2022/23

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which provided a copy of the budget report which had been taken to Pensions Committee. It was noted that the Fund was valued at £10.3 billion at 31 December 2022 having peaked at £11 bn at 31 March 2022. The deterioration in market conditions resulted in lower external investment management fees which was reflected within the projected spend for 2022/23 and the approved budget for 2023/24.

Members discussed aspects of the report including external investment management fees, pay and resources. Officers confirmed that costs were subject to benchmarking exercises with results presented to working parties and the Board.

Resolved – That the report be noted and the best practice requirement for LGPS funds to set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements be noted.

23 TREASURY MANAGEMENT POLICY FOR 2022/23 AND ANNUAL REPORT FOR 2020/21

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which provided Board Members with a copy of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2023/24 taken to Pensions Committee. It was noted that there were no changes to the previous year and it was compliant with the best practice guidelines from CIPFA.

Resolved – That the report be noted.

24 MINUTES OF WORKING PARTY MEETINGS

The Chair introduced the report of the Director of Pensions which provided the minutes of meetings of Working Parties held since the previous Board meeting.

Resolved – That the minutes be noted.

25 **AUTHORISED SIGNATORIES**

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which provided a copy of a report taken to the Pensions Committee meeting updating the Fund's list of authorised signatories. It was noted that the only difference was the addition of the new Director of Finance at Wirral Council following his appointment.

Resolved – That the report be noted.

26 **PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS**

The Head of Finance and Risk for Merseyside Pension Fund presented the report of the Director of Pensions which provided a copy of a report regarding the write-off of irrecoverable property rent arrears that had been taken to the Pensions Committee meeting. It was noted that it concerned three tenants out of 160 in total, and the three companies had either gone into administration or liquidation and impacted due to the Covid-19 pandemic.

Resolved – That the report be noted.

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

Resolved – 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

28 **PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 OCT – 31 DEC 2022]**

The Head of Pensions Administration for Merseyside Pensions fund presented the report of the Director of Pensions which provided monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period: 1 October 2022 to 31 December 2022.

The Chair thanked the Head of Pensions Administration for consulting him in respect of the Pensions Regulator's Public Service Governance and Administration Survey 2022-2023.

Resolved – That the report be noted.

29 **RISK REGISTER**

The Director of Pensions presented his report which provided a copy of the Fund's Risk Register. It was noted that one new risk had been added since the previous iteration.

Resolved – That the risk register report be noted.

30 **PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS EXEMPT APPENDIX**

Resolved – That the exempt appendix be noted.



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	MINUTES OF WORKING PARTY MEETINGS
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to provide Members with the minutes of meetings of Working Parties held since the previous Committee meeting.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report. The approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

3.0 BACKGROUND INFORMATION

- 3.1 The Investment Monitoring and Governance & Risk Working Parties enable Members and their advisors to consider pension matters relating to Merseyside Pension Fund in greater detail. They are not decision-making bodies but minutes and action points arising are reported to Committee.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from this report. The working parties ensure scrutiny by elected members of the performance of the Fund's investments and administrative functions.

5.0 LEGAL IMPLICATIONS

- 5.1 Under the Fund's governance arrangements, minutes of working parties are reported to Committee for approval.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising directly from this report. The working parties ensure the oversight of the Fund's activities by elected members.

7.0 RELEVANT RISKS

- 7.1 A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory requirements.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Environmental, Social and Governance matters are a standing item on the IMWP agenda.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

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APPENDICES

Appendix 1 & 2 Working Party minutes/Responsible Investment/Stewardship reports.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section F of its Terms of Reference: (f) To appoint members of the Investment Monitoring Working Party, which shall have responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP and GRWP meetings are brought to the subsequent Pensions Committee.	

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Minutes of IMWP held on 02 March 2023

Attendees

Councillor Pat Cleary (Chair)	PC	WBC
Councillor Cherry Povall (Vice-chair)	CP	WBC
Councillor Chris Carubia	CC	WBC
Councillor Tom Cardwell	TC	LCC
Councillor George Davies	GD	WBC
Councillor Brian Kenny	BK	WBC
Councillor Paulette Lappin	PL	SBC
Roger Bannister	RB	Unison Member rep
Peter Fieldsend	PF	Pension Board
Donna Ridland	DR	Pension Board
Robin Dawson	RD	Pension Board
Roger Irvine	RI	Pension Board
Pat Maloney	PM	Pension Board
Jill Davys	JD	Redington
Tom Pilcher	TP	Redington
Rohan Worrall	RW	Independent Advisor
Paul Watson	PWa	Independent Advisor
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AA	MPF
Elizabeth Barlow	EB	MPF
Emma Jones	EJ	MPF
Greg Campbell	GC	MPF
Allister Goulding	AG	MPF
Dan Proudfoot	DP	MPF
Neil Gill	NG	MPF
Joe Hull	JH	MPF
Roksana Klapkowska	RK	MPF
Yu-Jhu Lin	YL	MPF

Apologies

Councillor Andrew Gardner
Councillor Karl Greaney

1. Declarations of Interest

As notified.

2. Minutes of IMWP 15 November 2022

Noted, no amendments.

3. Presentation: Jill Davys (JD) - Director, Tom Pilcher (TP) - Senior VP from Redington

JD presented the management framework focusing on funding objectives, risk budgets, liquidity and cash flow, ESG and local investment. A detailed survey has been carried out to support Redington's analysis.

Long-Term Funding Objective

TP presented the funding objective and pointed to the fund valuation reaching 106% funded at actuarial valuation in 2022. According to the survey in terms of the fund's primary objective, the top three options are consistently related to its funding position and funding level.

In the breakdown of current Strategic Asset Allocation (SAA), public equities account for the majority (UK equity 0.8% and overseas equity 1.5%) of the expected return. Overall, the expected return is higher than the minimum return required to maintain the Fund's fully funded position.

Rohan (RW) asked if the expected return should be lower in terms of risks. TP agreed that the expected returns could feasibly be reduced in the context of risk management.

Paul (PWa) asked about the current funding position and JD responded that they have consulted with Mercer and they do not have concerns about the funding position.

Risk Budget

In terms of the risk drivers, value at risk (VaR) and stress tests are used to analyse the current SAA portfolio. The VaR shows that in a 1-in-20 downside scenario, the Fund's assets would fall by 13.9%. The exposure to individual risk factors across the portfolio has led to a good level of diversification in the portfolio. Among all the factors, equity has shown to be the biggest risk which is also reflected in the stress tests. A supporting survey shows that more respondents agree to prioritise risk management even to sacrifice some investment returns. Redington proposed a 13% risk budget which means that asset value should not decline more than 13% in the 1-in-20 downside scenario.

RW asked what period and volatility were used to create the VaR as the inputs would affect the estimated output. TP explained that a hundred plus years of data has been pulled together to work around the assumptions. Redington understands that there are limitations of using VaR and other measures are also used in combination to help monitor risks.

Pat (PC) asked about the risk attitude among committee members and officers. JD shared that committee members tend to be happy to spend more time on understanding what a risk portfolio means. Committee members would like more clarity on the investment approach toward risks.

PWa asked about what risk factors are considered in setting up a risk framework. TP addressed that in a perfect world a framework can bring all risk factors

together. Longevity is one risk factor and some LGPS funds have managed this risk specifically. Proportionately the longevity risk factor will be relatively small compared to the investment risks in the framework.

Donna (DR) asked about the Fund's risk strategy compared to other funds. TP confirmed that the Fund's strategy is sensible and falls in the middle range among most LGPS funds in terms of risk taking. Since the majority of the Fund's risks come from equity, diversification of that risk can potentially improve the risk adjusted return of the portfolio.

Liquidity and Cash Flow

There are three ways of funding the regular pension payments, including pension contributions, asset income and proceeds of asset sales. The higher net cash outflows, the greater the need to hold liquid assets. Poor management of cash flows may lead to material consequences for example to liquidate assets at distressed prices. A secondary order of associated risk is the lack of flexibility of the Fund's portfolio, and which may cause the Fund to miss investment opportunities when they appear. The extreme scenario is to fail to make pension payments, resulting in reputational and legal consequences.

The current cashflow position shows significant negative cash outflows, while the estimated £150 million to £200 million income from private markets is not incorporated into the cashflows position. After taking the private market assets into account, a 2% divestment of assets is still required per year. This number is relatively high compared to other LGPS funds.

In terms of liquidity, the Fund currently holds about 35% private market assets that are expected to take longer time to liquidate at a fair price.

A supporting survey has shown sentiment of increasing the holding in income yielding assets in order to meet the cashflow deficit. Redington has proposed at least 60% of the projected cashflow deficit to be covered by investment income, and to target 50% of total asset value in liquid assets in a 1-in-20 downside scenario.

RW asked for further clarification on the definition of liquid assets. TP emphasised that Redington takes a broad definition and considers gilts as a liquid asset. The way they define overall liquidity is the current dealing terms on the assets and how long it takes to turn assets into cash.

PW asked if equity dividends are included in cash calculation and TP responded that currently they do not allow for equity dividends and the Fund should not rely on equity dividends for regular cash income.

ESG

JD recognised responsible investments as core to fiduciary duty and demonstrated how to integrate ESG investments with traditional investment objectives. Respondents to relevant survey also shows strong agreement to ESG

investments if opportunities arise. In Redington's assessment the Fund is seeking to generate positive ESG impact alongside financial returns.

Chris (CC) questioned which should take priority in the decision-making process, financial returns or ESG related fiduciary duty. JD concluded that the Fund's ultimate responsibility is to meet pension payments while the Fund could also face detrimental risk if it fails to transit into net zero by 2050.

Owen (OT) explained that since the Fund's responsibility to make pension payments falls in a longer timeline over 2050, it is worth taking actions in the near term to mitigate the systemic risks in issues like climate change and human rights. Ultimately it is all about risk management in the very long term.

PWa asked if Redington provides information on manager ratings. JD confirms that can be done and it depends on how the Fund engages with its managers. Some objectives can be set to evaluate against managers.

PC highlighted that the Fund has taken significant steps in managing ESG related risks and should move fast to be ahead of the curve. JD would like to gain permission for a deep survey on ESG to help build up the framework. There are various ways to achieve climate related targets, for example the Fund can decarbonise the portfolio or invest in assets that help in the fossil fuel transition.

PC suggested to compare with peers in terms of meeting the net zero target. OT emphasised that accounting carbon footprint is an useful matrix to quantify while the decarbonisation approach may not really create an impact on the real world emission. Peers are now moving towards the target alignment of Paris agreement to limiting 1.5⁰C temperature increase.

Cherry (CP) highlighted the importance of managing ESG risks instead of greenwashing. CC suggested that training on ESG risks will be useful. Peter (PW) confirmed that two things are to be done, one is to undertake a survey as proposed by Redington on ESG and the other is an event to help understand the portfolio decarbonisation, greenwashing, and energy transition.

Redington has proposed a further discussion about what the Fund wants to achieve to set some targets and measurements. JD explained that carbon footprint in scope 1 and scope 2 are relatively easier to capture, while scope 3 is more difficult to measure. Therefore, it is important to set long term targets while allowing short term fluctuations. TP further highlighted that climate issues are multiple faceted, and more measures should be investigated in assessing the climate risks.

Levelling up / Local Investments

A levelling up white paper that was released last year is currently awaiting further regulation, in which local means UK wide and up to 5% of LGPS assets are expected in levelling up agenda. Some targets are achievable for local pension funds such as affordable housings. Redington survey has shown that a desire to pursue more local investment toward Merseyside region. A formal target is still waiting for additional guidance and discussion.

PC confirmed that the committee would like more local investments and wished that government has set an appropriate framework for local pension funds to utilise investments while aiming at the levelling up target.

RW asked about the rationales behind the scenario analysis regarding the climate stress testing. TP further explained that the scenario test is about the transition risk under cases from orderly transition into net zero to insufficient efforts been done. While physical risk is not considered in the test.

PC highlighted the committee consensus in human rights and the importance of establishing a structural framework to address critical issues. JD agrees that further expansion in ESG to include engagement and stewardship. Exclusion can also be put in place in screening companies. CC would like to see clear measures on how changes in the real world would impact the financial returns of the Fund.

4. Market Update

RW updated the market review. UK bonds have significantly fallen over 2022 (-40.1% for UK FT all government Gilts, -46.9% for UK index-linked Gilts). PMI, an indicator for economic activity, shows a downward trend below 50 and indicates a potential recession. The annualised CPIs for major developed economies have shown a sharp increase since December 2020.

In terms of equity market, the US S&P500 peaked around the end of year 2021 and then moved in a downward trend, while UK all-share has shown to be underperforming compared to other markets. The US market outperforms mainly due to the large constituents of growth stocks, and in the UK a large component is financial services and energy that tend to perform relatively even across the cycle. The difference between the MSCI World Value Index and the MSCI World Growth Index have been narrower over the year. The Fund has a significant weight tilting toward value stocks.

Regarding the fixed income markets, yields in US, Germany and the UK grow significantly reflecting the high inflation and Central Banks monetary policies. Corporate bond yields have appeared to be average compared to history, and the spread would be expected to widen if the economy goes into recession.

In currency market, Sterling rose sharply against US dollar and Chinese yuan. While the Brent crude oil price has come down. Emerging market equities are looking more interesting, sector wise retails may continue to suffer.

PC asked about the situation in the labour market. RW responded that manufacturing sector is getting weaker and the service sector is trying to pick up the demand constrained during lockdowns. In terms of the labour market in the manufacturing sector, less layoffs are seen due to the difficulty of rehiring labours.

5. Monitoring Report

PW pointed out that there are two mandates of particular concern, one is Unigestion Europe ex-UK equity and the other is Newton UK equity. Both have

underperformed significantly and they are the ones that the Fund is using for liquidity so as to meet pension payments.

PC asked about the wide variation in performance against benchmarks given the volatility. PW responded that the Fund has not seen the value tilted portfolio benefiting as expected.

6. Responsible Investment

OT introduced the engagement working paper seeking for further comments, and the document provides corporate lens to construct engagement in a structural approach. JD further explained the three levers in responsible investments - invest, engage and exclude. It establishes a mechanism to assess the engagement level and financial materiality, the ability to influence decisions and to collaborate with a wider sector on global issues.

CC pointed out the material issues when the Fund stops investing in certain companies where there may have human rights issues. JD confirmed that the importance to check with external managers to understand if they have a consistent approach in dealing with companies with relevant issues. PC further commented that the key will be how we engage with invested companies that are of concern. PWA also requested for an engagement pipeline and also assessment of the engagement for decision making going forward. OT clarified that the likelihood of influence over what time period and what changes are looked after as sometimes the influence and changes may not be reflected on immediate results.

RW asked about Redington's views on carbon offset. JD confirmed that at some points in time there are opportunities to invest in good companies involving assets such as Timberland as OT mentioned.

The remainder of the agenda including an update on Russian investments and the quarterly voting and engagement reports were for noting.

LAPFF Q4 2022 QER: <https://lapffforum.org/wp-content/uploads/2023/01/LAPFF-Q4-QER.pdf>

Northern LGPS Stewardship report:
https://northernlgps.org/assets/pdf/stewardq4_2022.pdf

Minutes of the Governance and Risk Working Party, 10.30, Thursday 9 March 2023.

Microsoft Teams meeting.

Present:

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Councillor George Davies	GD	WBC
Councillor Karl Greaney	LR	WBC
Peter Wallach	PW	Director of Pensions
Donna Smith	DS	Head of Finance & Risk
Guy Hayton	GH	Senior Manager of Operations & Information Governance

Invited Guests:

Name	Initials	Organisation
John Raisin	JR	Independent Chair of Local Pension Board

Apologies were received from:

Name	Initials	Organisation
Yvonne Murphy	YM	Head of Pensions Administration
Roger Bannister	RB	Unison
Councillor Tom Anderson	TA	WBC
Councillor Cherry Povall	CP	WBC
Councillor Brian Kenny	JB	WBC
Councillor Chris Carubia	CC	WBC

In attendance: Emma Jones.

1. Approval of Minutes & Introduction

Minutes of GRWP, Tuesday 12 July 2022, were reported to Pensions Committee and have been approved.

PW introduced the meeting and reported that members of the Local Pension Board have been invited to observe proceedings.

2. Declarations of Interest

PW advised that Declarations of Interest are reported on an annual basis but for noting purposes Councillor George Davies declared a personal interest that his wife is a member of Merseyside Pension Fund.

Noting/Action points

Noted.

3. Business Plan

PW reported that he has included a draft Business Plan in the pack to show the scope of activities and the key priorities of the Fund over the next 12 to 24 months. There are four sections which cover the Fund's principal activities, projects, horizon scanning and procurements. PW advised that the Priorities are reviewed on a monthly basis and Projects and Activities are reviewed on a quarterly basis at the Fund Operating Group (FOG).

PW ran through each of the sections of the Business Plan including the key statistics of the Fund and its current valuation. PW advised that although the valuation has fluctuated in recent months it has recovered since December 2022. PW noted that the Fund anticipates paying £395m over the next 12 months in pensionable payments and that the budget was agreed at the Pensions Committee on the 21 February 2023.

PW reported on the appointment of Redington and advised that the review of the investment strategy is one of the key items. The strategic asset allocation is being revised and sustainability and climate change scenario analysis is being integrated into the investment strategy. PW advised on further strands in the plan including developing an engagement policy, and staff recruitment, staff development, and succession planning.

PW reported that we continue to improve the service provided to members and employers. PW reported on other key areas within the Business Plan and hoped it was an assurance to Members, as recommended by the Pension Board, that the Pensions Committee is involved at an earlier stage in both the Fund's business planning and budgeting. PW concluded that it is also an opportunity to set out what Officers have in mind and allow Pensions Committee to introduce other matters and issues which may not be covered.

Questions

A discussion developed with regard to improving the funding level of the Fund, stabilising employer contributions and reducing risk in the portfolio. PW advised this was discussed at the IMWP (2 March 2023) and formed part of the survey produced by Redington. PW assured Members it will remain an active area for the Fund and will be continued to be discussed with Redington and them going forward.

JR advised that the Government are now looking at ways to separate the Pension Fund Accounts from the Adminstrating Authority (as in Scotland and Wales) which will necessitate the Pension Committee being more involved with setting the budget plan.

PC asked if PW could expand on recruitment with regard to future planning. PW replied it is a problem which is being looked at closely and he is working with HR as experienced staff are required to enable efficiencies to be delivered. Although the Fund is successful in recruiting junior staff and can provide them with training, it takes time to gain experience and knowledge and the scope to access experienced staff is limited.

PW advised that benchmarking of remuneration is the other consideration, and it is reasonable that staff at the Fund are compensated in line with their counterparts at Greater Manchester and West Yorkshire Pension Funds. PW advised he is liaising with HR in regard to this. PW advised that there has to be a clear definition of roles and responsibilities staff are fulfilling and ensure that processes are in place for clarity and to build up resilience. PW is looking at ways of utilising the apprenticeship levy.

PW advised that there are staff who have been seconded to GLIL which is useful to both the Fund and to GLIL.

JR expanded on the fact that pension administration is far more complicated than is generally understood by HR and PW identified some of the complex areas that pensions administration have to undertake.

Action Points

There were no action points, and the Business Plan was duly noted.

4. Administration KPI report

PW advised that the KPI report is taken to the Pension Board on a quarterly basis and details the various activities that are ongoing. It is helpful as an overview for Committee and to reassure Members the Fund's administration performance is scrutinised on a regular basis by the Board.

GH reported that at each meeting of the Pension Board members are updated with reports that have been presented to earlier Pensions Committee meetings and is a

standing report of administration performance. GH advised that the full document is contained within the GRWP pack.

GH outlined the KPI report, its key performance indicators, the internal controls which are in place within each specific area and issues which have been raised.

Questions

JR commented that this report has been appreciated over the time it has been presented to the Pension Board. It receives a lot of comments and questions as the information is comprehensive and is a very positive report from a governance point of view.

GH thanked JR and iterated that the report has also grown as a result of the questions asked by the Pension Board and clearly demonstrates that it is this interaction between Board and officers that has enhanced the information contained within the current reports.

PC commented that it is fortunate that with the Cost-of-Living crisis the Fund has not experienced any significant increase to members leaving the pension scheme. GH explained why some members of the scheme do choose to leave and how the opting out process works. GH further advised that members who have opted out are automatically re-enrolled by their employer every 3 years and must make another decision to opt out of pension saving. GH advised on the 50/50 section of the Scheme and how it is an option to all members for them to consider as an alternative to opting out of pension saving.

Action Points

There were no action points, and the KPI report was duly noted.

5. Contracts report

DS presented the Contract report and reported that it is to inform Members of all the Fund's contracts which have been awarded and which have been subject to Waivers, breaches to CPR's, extensions and variations. It covers the period from July 2022 to December 2022 as detailed within the Corporate Procurement Unit's Register.

DS advised that the appendix is an extract from the Corporate Procurement Unit's Register which details the contract awards and includes exceptions which have been approved. DS further advised there have been no breaches for the period stated. DS summarised the appendix and stated that MPF comply with procedural rules and only seek exceptions when absolutely necessary.

Questions

No questions were raised.

Action Points

There were no action points, and the Contracts report was duly noted.

6. Risk Register

PW presented the Risk Register and advised that according to the minutes of the 12 July 2022 Councillor Greaney had raised the issue that the register was not clear in some areas. PW reported that this has been addressed and the risk weighting of high, medium or low has been revised to relate to the net score. Further to that the report indicates that we have increased some of the scores since the last report in July 2022 and introduced a new risk around the audit which DS is managing.

PW advised that it is reported to the Pension Board on a quarterly basis and is brought to the GRWP to demonstrate that risks are kept under regular review.

GH added that there is a further IT Risk Register which is maintained and goes into technical detail about the IT infrastructure. GH informed Members that he intends to present Cyber Security into three distinct subject areas in future versions of the Fund's risk register; specifically the risk of 'external attack', the risk to the Fund's data and the risk to the IT systems that are essential to the operation and delivery of the Fund's functions and services.

Questions

Councillor Karl Greaney (KG) raised concerns that there seem to be a high number of red and amber risks. PW responded that it could be a procedural issue where the Fund perceives risks are higher than they may be and this can be reviewed. PW explained that some of the risks are outside of the Fund's control for example investment risks such as the stock market and the economy which are difficult to mitigate. PW added that operational risks will be looked at to see whether risks to the Fund are overstated.

GH advised that some risks are sometimes outside of the Fund's control and the context of the risk should also be considered. GH expanded by giving the example Cyberattacks from external criminals, stating that the likelihood of an attack cannot be controlled, only a mitigation on the impact of such attacks. Consequently, in this example the net residual risk will always retain a level that is 'amber' rated.

JR commented that he has seen Risk Registers in other LGPS Funds, and it is not unusual to see high scoring. JR noted that Risk 9, the recruitment and retention of staff has been raised by the Pension Board but he is satisfied that the Fund are dealing with this adequately. JR emphasised the importance of addressing this risk. Again, JR raised the issue whether HR are aware of the complexities of certain areas such as internal and external management which involve activities outside normal Council experience.

Action Points

The Risk Register was duly noted.

Operational risks are to be reviewed to see if risks are being overstated at the Fund.

7. Compliance Monitoring reports:

- **Gifts & Hospitality**
- **Subsidised Business Events**
- **Overseas Travel**

DS stated the report provides Members with a summary of subsidised business events attended by officers of the Fund, it details gifts and hospitality offered and/or received and overseas travel undertaken from April 2022 to December 2022.

DS reported that the Pension Committee have previously approved guidance in relation to these areas and the guidance is reflected by Wirral in its overall governance arrangements and is set out in the Fund's Compliance Manual.

Attached to the report is a schedule of: -

- Gifts & Hospitality
- Subsidised Business Events
- Overseas Travel

DS summarised the declarations made under the period stated. DS reported that under the schedule for Overseas Travel some of the fees may appear to be low but there is a note to state that some of these trips are subsidised by the organisers who pay or contribute towards the costs incurred by Officers in attending these events.

Questions

No questions were raised.

Action Points

None.

Noting/Action Points

Date of Next Meeting – 5 October 2023 (TBC)



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	NORTHERN LGPS UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS Investment Pool. Minutes of the previous Northern LGPS Joint Committee meeting are appended for noting.

RECOMMENDATION/S

The Pensions Committee be recommended to note the minutes of the Joint Committee meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 Pooling is resulting in fundamental changes to the oversight and management of Local Government Pension Scheme (LGPS) assets and it is important that Members are informed of all developments affecting the Fund.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other suitable options. It is an audit recommendation that minutes of the Northern LGPS joint committee meetings are reported to Pensions Committee.

3.0 BACKGROUND INFORMATION

- 3.1 The Northern LGPS Investment Pool was established between Merseyside, Greater Manchester and West Yorkshire Pension Funds in response to the revised LGPS Investment Regulations 2016 which were, in part, designed to facilitate the pooling of assets between LGPS funds and improve access to infrastructure investments.
- 3.2 Minutes of the previous Northern LGPS joint committee meeting are attached at appendix 1.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from this report. The operating costs of the Pool are reported annually and shared equitably between the participating funds.

5.0 LEGAL IMPLICATIONS

- 5.1 LGPS funds are required to pool their assets in order to comply with Regulation 7(2)(d) of the 2016 Investment Regulations. The regulation requires administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising directly from this report. The Joint Committee provides monitoring and oversight of the operations of the Northern LGPS Investment Pool.

7.0 RELEVANT RISKS

- 7.1 Pooling has resulted in fundamental changes to oversight and management of LGPS assets. It is essential that Pensions Committee exercises its governance responsibilities in accordance with the Council's constitution.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environment and climate implications arising from this report. The NLGPS has a Responsible Investment policy explicitly addresses environment and climate implications as financially material to long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
telephone:
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1 Minutes of Joint Committee meetings.

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Northern LGPS update is a standing agenda item on Pensions Committee	

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

2 February 2023

Commenced: 11:00

Terminated: 12:20

Present:	Cllr Gerald P Cooney (Chair) Councillor Oliver Ryan	Chair, Greater Manchester Pension Fund Vice-Chair, Greater Manchester Pension Fund
	Councillor Andrew Thornton Elizabeth Bailey	Chair, West Yorkshire Pension Fund Deputy Chair, West Yorkshire Pension Fund
	Councillor Pat Cleary	Chair, Merseyside Pension Fund
In attendance	Sandra Stewart Peter Wallach Euan Miller Rodney Barton Tom Harrington	Director of Pensions, GMPF Director of Pensions, MPF Managing Director, WYPF Retiring Director of Pensions, WYPF Assistant Director of Pensions, Investments, GMPF
	Steven Taylor	Assistant Director of Pensions, Special Projects, GMPF
	Neil Cooper Mushfiqur Rahman	Head of Pension Investment, GMPF Investments Manager for Public Markets, GMPF
	David Olliver Alex Jones Owen Thorne Adil Manzoor Colin Standish Simon Edwards Alan McDougal Janice Hayward Tom Powdrill Conor Constable	Senior Investments Manager, GMPF Investment Officer, GMPF Merseyside Pension Fund Merseyside Pension Fund West Yorkshire Pension Fund West Yorkshire Pension Fund PIRC PIRC PIRC PIRC
Apologies for Absence:	Councillor Cherry Povall	Deputy Chair, Merseyside Pension Fund

23 DECLARATIONS OF INTEREST

There were no declarations of interest.

24 MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 6 October 2022 were agreed as a correct record.

25 COMMON CUSTODIAN UPDATE

Consideration was given to a report of the Director of Pensions (GMPF) / Assistant Director for Investments (GMPF). Representatives of Northern Trust presented an update on the key milestones, deliverables and high level KPIs applicable to their appointment as the common custodian to the Northern LGPS pool.

The Committee received a presentation from the Relationship Manager for Northern Trust. The presentation set out Key Performance Indicators, measuring trade settlement, income collection and straight through trades.

The Key Milestones and Deliverables that were completed and in progress for GMPF, MPF and WYPF were presented to the committee.

RESOLVED

That the report and presentation be noted.

26 COMMON CUSTODIAN - CONTRACT EXTENSION AND FEE REVIEW

Consideration was given to a report of the Director of Pensions (GMPF) / Assistant Director for Investments (GMPF). The report recommend that the three underlying Northern LGPS Funds appoint Thomas Murray Ltd (TML) to carry out a fee review and custodian monitoring exercise of their contractual arrangements with Northern Trust.

It was reported that officers believed it was now appropriate to begin considering whether the appointment of the Northern Trust should be extended for a further 5 years. This would be considered against a background of i) the three underlying Northern LGPS Funds being broadly satisfied with the current common custodial arrangements; and ii) the knowledge that transitioning custodians was a very substantial and resource intensive undertaking.

Before deciding whether to extend for a further 5 years, officers believed it was important to ensure that the current contractual arrangements with Northern Trust continued to provide value for money. As such, it was proposed that the three underlying Northern LGPS Funds sought to appoint TML to carry out a fee review and custodian monitoring exercise. TML were best placed to undertake this work, given their status as the pre-eminent custodian selection and monitoring specialist, and having been heavily involved in the initial procurement project leading to Northern Trust's appointment. TML's fee was not expected to be material.

Once the proposed fee review was completed, this would be considered alongside an assessment of the custodian's performance during the initial contractual period. It was planned that a further report would be brought back to a future meeting of the Northern LGPS Joint Committee recommending that the option to extend the appointment of Northern Trust for a further 5 years be exercised, or otherwise.

RESOLVED

That the three underlying Northern LGPS Funds appoint Thomas Murray Ltd (TML) to carry out a fee review and custodian monitoring exercise of their contractual arrangements with Northern Trust.

27 POOLING UPDATE

Consideration was given to a report of the Managing Director (WYPF), the report provided an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

In regards to the revisions to guidance on LGPS asset pooling it was reported that on the 9 December the Chancellor of the Exchequer announced that Government would also consult on requiring LGPS funds to ensure they were considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. It was once again reiterated that Government will be releasing new pooling guidance for consultation. This was expected in 'early 2023'.

Lee Rowley MP was the new minister for Local Government and would therefore take up responsibility for the LGPS.

As set out on the LGPS Scheme Advisory Board website, the Board Chair, Cllr Roger Phillips, and Board Secretary Jo Donnelly had a meeting with the Minister on 7 December 2022. Topics discussed included pooling, government progress on the Good Governance recommendations, climate risk and reporting regulations for the LGPS and the impact of National Living Wage increases in the coming years on local government.

In early January 2023 it was reported that the Royal Borough of Kensington and Chelsea was seeking to exit the London CIV pool. This would be the first time that a LGPS fund had proposed withdrawal from one of the eight LGPS pools.

Given the further ministerial changes and the Royal Borough of Kensington and Chelsea activity, there could clearly be further delay and/or material amendments made to the proposed LGPS consultation.

RESOLVED

That the report be noted.

28 SCHEME ADVISORY BOARD UPDATE

Consideration was given to a report of the Director of Pensions, MPF, providing an update on the last meeting of the Investment, Governance & Engagement (IG&E) Sub-Committee that had taken place.

The principal items on the agenda for the 28 November meeting were:

- Code of Transparency Update. Contractual arrangements with Byhiras were discussed. It was proposed that a user group comprising frequent and infrequent users of the system be established to consider proposed enhancements to the Byhiras reporting system and their value to users.
- RIAG Chair's (Director of GMPF) report. An update on the most recent RIAG meeting was provided. The meeting focused on TCFD reporting and a variety of views had been expressed around targets, methodologies, the role of Pools and the challenges of Scheme-wide reporting. It was important that the statutory guidance from DLUHC provided clarification on the various matters.
- DLUHC Regulatory Update. The consultation on TCFD reporting had closed. More than 120 responses. Constructive approach. A consultation on Pooling and Levelling Up would be issued when feasible. Climate risk regs needed to be in place by 1 April 2023. Considering whether the annual council report on spend known as the SF3 return could be expanded to include more information on Investments such as 'Broad asset categories and Pooling'.

RESOLVED

That the report be noted.

29 UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a presentation of representatives of PIRC, which set out the Q3 2022 Northern LGPS Stewardship Report (attached at Appendix 1).

The Committee were advised of PIRC were encouraging companies to adopt the global reporting initiatives on tax standards. This was initially filed at Amazon and was also approved by the SEC. The Tax Transparency Shareholder Proposal was then filed at subsequent companies including

Microsoft and Cisco. It was reported that other investors have now taken this model resolution and filled it at companies.

An update was provided on the resolutions brought by GMPF. Following GMPF co-filing a resolution during 2022, Unilever agreed to publish nutrition scores for its food portfolio against external health metrics and set new targets. Prior to the engagement Unilever had been disclosing volumes of 'healthy' vs 'unhealthy' products it sold based on its own nutrient profiling model, making it less resilient to regulatory changes. Co-Fillers agreed to withdraw the resolution providing the company set targets to reduce the proportion of 'unhealthy' products it sold.

Further, GMPF submitted paperwork relating to a proposed resolution requesting that Nestle, the largest food and beverage manufacturer in the world, provided strategic plans and targets to increase sales derived from healthier food and beverage products. The co-filing group advised Nestle of the intention to submit a resolution two weeks ago. A series of engagement meetings with the company had been scheduled ahead of the filing deadline (early March) during which a negotiation between the investor group and the company would take place.

In regards to Freedom of Association resolutions, there were a number of these resolutions being filed as US companies this year. Shareholders urged the Board of Directors to commission and oversee an independent, third-party assessment to Starbucks adherence to its stated commitment to workers' freedom of association and collective bargaining rights as contained in the International Labour Organisation's Core Labour Standards and as explicitly referenced in the company's Global Human Rights Statement.

RESOLVED

That Members note the Q3 2022 Northern LGPS Stewardship report.

30 PERFORMANCE MEASUREMENT

Consideration was given to a report of the Director of Pensions (GMPF), the provided members of the Northern LGPS Pool Joint Committee with an update on performance measurement.

An extract from the Northern LGPS reporting for periods to 30 September 2022 was attached as an Appendix (note that returns for the three year period are un-annualised). The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

Officers continued to work closely with Portfolio Evaluation to separately identify NPEP and GLIL returns in these performance reports, given their importance to the Northern LGPS proposition.

RESOLVED

That the report be noted.

31 GLIL UPDATE

Consideration was given to a report of the Assistant Director for Local Investment and Property (GMPF). The report updated members on progress with the Northern Pool's direct infrastructure investment platform (GLIL) and to give an interim update on the consultation exercise amongst stakeholders and wider market into how GLIL should position itself.

With regard to the consultation exercise, there had been significant engagement by the stakeholders and the GLIL team have learnt a great deal from the feedback about their expectations from GLIL and their perspective on the way forward. This had been extremely helpful but had required significant re-drafting of plans. This should result in a better plan for the way forward and one with a shorter implementation timetable. The broad themes were that there was not a perceived need for structural change and creation of new entities but that managerial changes, tax

efficient charging mechanisms and enhanced governance procedures could drive necessary improvements. Engagement continued with advisers and other stakeholders and it was anticipated that preliminary proposals would be available in the new financial year.

Members were updated on investment progress. Attached to this report was the GLIL report to investors for the period ending 30 September 2022. The key highlights of this report and of activity post the issuing of the report to date, were:

- Fund NAV stood at £2.65bn, slight reduction from £2.7bn at 30 June. IRR since inception of 11.1% and 22% over the last 12 months. £266m of distributions returned to investors since inception.
- Following the date of the report GLIL had deployed in excess of £550m with the majority invested in 2 assets. On 1 November £200m for a 6.25% stake in Hornsea 1, one of the largest operational offshore windfarms in the world powering over 1 million homes. 20 January 2023, £306m for a 25% stake in the M6 Toll road, the UK's only true toll road that helped to reduce congestion on the heavily used M6 through Birmingham, smaller follow on investments had been made via GLIL's holding in Semperian
- GLIL also completed the exit of its portfolio of Biomass asset managed by Iona Capital following the issuing of the report, this investment was no longer considered appropriate for GLIL given that fees were being paid to a manager. The assets were sold to a group of Scottish LGPS funds led by Lothian Pension Fund.
- Market for Infrastructure investments remained strong as the attraction of assets benefitting from inflation linked revenues was increasingly felt. Increase in Gilt yields could lead to a repricing of assets however the strong demand and availability of capital chasing scarce opportunities could limit this. Price caps and windfall taxes had had an effect of renewable energy assets that had performed strongly as a result of the elevated power prices.

RESOLVED

That the report be noted.

32 DATE OF NEXT MEETING

RESOLVED

It was noted that the next meeting of the Northern LGPS Joint Oversight Committee was scheduled to take place on 13 April 2023.

CHAIR

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

13 April 2023

Commenced: 11:00

Terminated: 12.20pm

Present:	Cllr Gerald P Cooney (Chair) Councillor Andrew Thornton Councillor Pat Cleary Elizabeth Bailey Ken Drury Alan Flatley	Chair, Greater Manchester Pension Fund Chair, West Yorkshire Pension Fund Chair, Merseyside Pension Fund UNISON UNITE GMB
In attendance	Sandra Stewart Peter Wallach Euan Miller Tom Harrington Paddy Dowdall Steven Taylor Mushfiqur Rahman Alex Jones Owen Thorne Adil Manzoor Greg Campbell Leandros Kalisperas Robert Hulme Alan McDougal Tom Powdrill Conor Constable	Director of Pensions, GMPF Director of Pensions, MPF Managing Director, WYPF Assistant Director of Pensions, Investments, GMPF Assistant Director, Local Investment and Property Assistant Director of Pensions, Special Projects, GMPF Investments Manager for Public Markets, GMPF Investment Officer, GMPF Merseyside Pension Fund Merseyside Pension Fund Merseyside Pension Fund Chief Investment Officer, WYPF West Yorkshire Pension Fund PIRC PIRC PIRC
Apologies for Absence:	Councillor Cherry Povall - Deputy Chair, Merseyside Pension Fund Councillor Oliver Ryan – Vice-Chair, Greater Manchester Pension Fund	

33. DECLARATIONS OF INTEREST

There were no declarations of interest.

34. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 2 February 2023 were agreed as a correct record.

35. COMMON CUSTODIAN UPDATE

The Assistant Director of Pensions Investments, GMPF submitted a report, which provided details of key performance indicators and key milestones and deliverables for the quarter to 31 December 2022 in relation to Northern Trust (NT) in their capacity as the common custodian to the Northern LGPS pool, as attached in an appendix to the report.

RESOLVED

That the report and presentation be noted.

36. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING

Consideration was given to a report of the Assistant Director of Pensions Investments, which provided Members with an update on investment management cost benchmarking for 2021/22. John Simmonds and David Jennings of CEM Benchmarking also delivered a presentation.

Analysis of the interim 2020/21 data indicated that the Northern LGPS remained low cost and was below the median (average) cost of its peer group (which consisted of 19 global pension funds (inclusive of Northern LGPS) ranging from £18.6 billion to £106.3 billion.

In 2014/15, CEM calculated Northern LGPS' benchmarked costs to be 0.35% (£112 million relative to an average Pool value of £29 billion). The Northern LGPS' costs increased to 0.37% (£203 million relative to an average Pool value of £55 billion) in 2021/22.

When adjusting for the increase in assets and changes in strategic asset allocation over the last eight years, CEM calculated that Northern LGPS' like for like costs would be 0.55% (£299m) in 2021/22. On this basis, Northern LGPS had generated underlying savings of 0.18% (£96m) in 2021/22.

CEM had also benchmarked Northern LGPS' costs against a peer group of 19 relatively similar sized global funds (including 1 other large UK LGPS fund and 2 other LGPS pools (based on the data submitted by the pools and available to CEM)). The peer group actual cost was 0.52%. To calculate the benchmark cost, CEM apply peer median costs at an asset class level to the Northern LGPS' asset mix. The benchmark cost in 2021/22 was 0.40% (£221m). On that basis, the Northern LGPS was 0.03% (£18m) lower cost than the benchmark.

RESOLVED

That the content of the report and the presentation be noted.

37. POOLING UPDATE

Consideration was given to a report of the Managing Director (WYPF), providing an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

It was reported that, on 3 January 2019 MHCLG released new draft statutory guidance on LGPS asset pooling for 'informal' consultation. Parties that were consulted include pools, administering authorities and local pension boards. The guidance was intended to replace previous pooling guidance, in particular the LGPS Investment Reform Criteria and Guidance issued in November 2015 ('the 2015 guidance').

As per discussion at previous meetings, the draft statutory guidance appeared to blur the original four criteria in the 2015 guidance. In its place the guidance had 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting. Government was yet to publish a response to the consultation (it appeared that it would be superseded) and therefore the 2015 guidance remained in force.

DLUHC civil servants had been indicating for some time that a consultation on several key policy areas for the LGPS was expected to be issued in the near future. The consultation was expected to cover LGPS pooling as well as other related matters such as the implementation of TCFD ('Task-force on Climate-Related Financial Disclosure') requirements for LGPS funds and investing LGPS

assets to support the levelling-up agenda. However, a consultation on implementation of TCFD requirements was released separately on 1 September 2022.

At a speech on 9 December 2022, the Chancellor of the Exchequer announced that Government would also consult on requiring LGPS funds to ensure they were considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. It was once again reiterated that Government would be releasing new pooling guidance for consultation.

Members were advised that the Chancellor of Exchequer delivered his Budget on 15 March. It was stated that the Government was challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets. A forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling had delivered substantial benefits so far, progress needed to accelerate to deliver and the Government was ready to take further action if needed. The Government would also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets. At the time of the report, the consultation had still not been issued.

In respect of London CIV developments, it was explained that, in early January 2023 it was reported that the Royal Borough of Kensington and Chelsea ('RBKC') was seeking to exit the London CIV pool. This would be the first time that a LGPS fund had withdrawn from one of the eight LGPS pools. Shortly after this, it was also reported the London Borough of Bromley may also be seeking to exit the London CIV pool.

However, following a meeting of RBKC's Investment Committee on 15 March, it was announced that the pension fund had decided against leaving LCIV. In addition, following a meeting of Bromley's Pension Committee on 13 March, it was announced that Bromley Pension Fund had decided against leaving LCIV.

RESOLVED

That the report be noted.

38. SCHEME ADVISORY BOARD UPDATE

Consideration was given to a report of the Director of Pensions, MPF, providing an update on the last meeting of the Investment, Governance & Engagement (IG&E) Sub-Committee that had taken place.

Actions & Agreements from the meeting on 28 November 2022 were appended to the report.

The principal items on the agenda for the 6 February 2023 meeting were:

- **Code of Transparency Update** - the standing item on compliance was reported.
- **The Byhiras reporting system was discussed.** To encourage greater use of the system by users and non-users, it was proposed that the system's capabilities be explained and free training be provided.
- **Climate Risk awareness survey** - Limited responses from London funds. A number of responses indicated limited preparation for requirements of TCFD reporting. Options for raising awareness were mooted.
- **Sharia Compliance Report** - The implications of the legal opinion were discussed along with options to move matters on.
- **DLUHC Regulatory Update** - No update was available.

RESOLVED

That the report be noted.

39. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report and presentation of representatives of PIRC, which outlined their proposed approach for reviewing the NLGPS approach to voting and set out the Q4 2022 Northern LGPS Stewardship Report (attached at Appendix 1 to the report).

Mr Powdrill and Mr Constable, PIRC Ltd, Responsible Investment Advisor to the Northern LGPS began by explaining that voting and engagement were a cornerstone of the Northern LGPS responsible investment activities. Whist formed bottom up from and by administering authorities, Northern LGPS had its own responsible investment principles and a shared approach to stewardship activities. The single approach was designed to increase the voice of the funds and maximise the impact they had in reducing ESG investment risks.

To understand how the single approach was playing out in practice, a short research report will be produced examining voting alignment across the three funds. This would aim to provide information on the level of alignment and highlight where there may be any differences. The objective was to provide Northern LGPS and the three funds with insights on voting alignment to inform discussions about how they could best meet their stewardship responsibilities both individually and collectively.

Members were advised that a report outlining the analysis would be submitted to the next meeting of the Joint Committee.

Mr Powdrill and Mr Constable then presented the Q4 2022 Northern LGPS Stewardship report, which focused on Shareholder Resolutions and explored further the following issues:

- the cost of living crises and executive pay;
- banks and the bonus cap;
- Ongoing discussions with a number of companies regarding Just Transition;
- Retail supply chains and Modern Slavery; and
- Focused on two shareholder resolutions in respect of healthy markets and workforce issues.

RESOLVED

That PIRC's proposed approach for reviewing the NLGPS approach to voting, and the Q4 2022 Northern LGPS Stewardship report, be noted.

40. PERFORMANCE MEASUREMENT

Consideration was given to a report of the Director of Pensions (GMPF), the provided members of the Northern LGPS Pool Joint Committee with an update on performance measurement.

It was explained that, at the Shadow Joint Committee meeting of 10 January 2019, Members endorsed the appointment of Portfolio Evaluation Ltd as the common performance measurement provider for the Pool.

An extract from the Northern LGPS reporting for periods to 31 December 2022 was attached as an appendix to the report. The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

Portfolio Evaluation Ltd recently notified clients of their intention to cease trading on 14 September 2023. Portfolio Evaluation Ltd would produce Northern LGPS reports up to and including the period ending 30 June 2023. Officers had begun the process of reviewing potential alternative common providers.

RESOLVED

That the report be noted.

41. GLIL UPDATE

Consideration was given to a report of the Assistant Director for Local Investment and Property (GMPF) updating members on progress with the Northern Pool's direct infrastructure investment platform (GLIL).

It was reported that GLIL had progressed well and had one external investor, NEST. There had been some engagement with other pools but this had not progressed as well as hoped. Officers had reflected on this and sought to analyse why; and to review the operation of GLIL to ensure that it served the objectives of current owners. An external consultant had been engaged to review the consult with stakeholders and a timetable was agreed with the Joint Committee to review options.

The feedback from stakeholders had been substantive and constructive and required a significant revision of proposals. Pending asset allocation reviews, the outcome of which may also have had a significant impact on what a future GLIL should look like to best serve Northern LGPS Funds. For these reasons further delays were envisaged before the conclusion of the project. Progress would be reported to the Joint Committee as and when available.

The GLIL report to investors for the period ending December 2022 was appended to the report. The last quarter of 2022 was a busy one for GLIL, it concluded the previously highlighted transactions to acquire a stake in, Hornsea 1, which was at the time, the world's largest fully operational offshore wind farm, as well as the sale of assets managed by Iona Capital. GLIL also entered into an agreement to purchase a significant minority stake in the M6 toll road. The transaction completed post the period end.

The core priorities for GLIL over next quarter and 12 months were reported as follows:

- Management of investors' current allocations in accordance with the mandate;
- Continue to implement ESG strategies in line with investee Fund's objectives;
- Completion of consultation exercise and implement of resulting recommendations; and
- Continued Engagement with other LGPS Fund's and Pools and potential aligned non LGPS investors.

RESOLVED

That the report be noted.

42. PROPERTY FRAMEWORK

Consideration was given to a report of the Assistant Director, Local Investment and Property, which informed Members on the use of the Northern LGPS property Framework by GMPF and WYPF.

It was explained that the Northern LGPS Property framework covered the following lots:

1. For the management of a discretionary UK direct property portfolio investing predominantly in core property, mostly on an unleveraged basis.
2. For the management of an advisory UK direct property portfolio investing predominantly in core property, mostly on an unleveraged basis.
3. To provide property management services on a UK property portfolio (predominantly invested in core property on an unleveraged basis).
4. To appoint an adviser of management and consultancy services in relation to a regional investment portfolio focused on the North West of England and West Yorkshire. The appointed adviser would be expected to make recommendations to the member funds within the pool.

5. To provide property valuation services, potentially on a range of UK property portfolios, ranging in size from £300m to over £1bn.
6. For the management of a portfolio of UK properties deemed to require intensive asset management, for example, longstanding vacancy, refurbishment/capital expenditure risk, short WAULTs with renewal risk.

Members were advised that WYPF were currently using the framework for lot 1 and GMPF were currently using the framework for lot 4, the timetables for both were detailed in the report.

RESOLVED

That the content of the report be noted.

43. DATE OF NEXT MEETING

RESOLVED

It was noted that the next meeting of the Northern LGPS Joint Oversight Committee was scheduled to take place on 6 July 2023.

CHAIR

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

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Pensions Committee – Terms of Reference

The Pensions Committee is responsible for exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the Merseyside Pension Fund.

In particular, the Committee is charged by full Council:

- (a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance of the Fund.
- (b) To appoint and terminate the appointments of the professional advisers to, and external managers of, the Fund and agree the basis of their commission and remuneration.
- (c) To receive actuarial valuations of the Fund and determine the level of employers' contributions necessary to balance the Fund.
- (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.
- (e) To consider any views expressed by employing organisations and staff representatives relating to the scheme.
- (f) To appoint members of the Investment Monitoring Working Party, which shall have responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.
- (g) To award contracts for goods and services relating to the Fund in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisers (where appropriate).

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