Public Document Pack

Local Pension Board

Date:	**Wednesday, 27 March 2024**
Time:	**1.00 p.m.**
Venue:	Committee Room 1 - Birkenhead Town Hall

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AGENDA

1. **WELCOME AND INTRODUCTION**

2. **APOLOGIES**

3. **MINUTES (Pages 1 - 8)**

   To approve the accuracy of the minutes of the meetings held on 27 September 2023 and 12 December 2023.

4. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

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

5. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE (Pages 9 - 14)**

6. **MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2022/23 (Pages 15 - 26)**

7. **TREASURY MANAGEMENT POLICY FOR 2024/25 AND ANNUAL REPORT FOR 2022/23 (Pages 27 - 48)**

8. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION OUTCOME: NEXT STEPS ON INVESTMENTS (Pages 49 - 72)**

9. MINUTES OF WORKING PARTY MEETINGS (Pages 73 - 84)

10. NORTHERN LGPS UPDATE (Pages 85 - 94)

11. RISK REGISTER (Pages 95 - 98)

12. PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS (Pages 99 - 106)

13. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

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

14. PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 OCTOBER – 31 DECEMBER 2023] (Pages 107 - 140)

15. RISK REGISTER - EXEMPT APPENDIX (Pages 141 - 144)

16. PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS - EXEMPT APPENDIX (Pages 145 - 150)

LOCAL PENSION BOARD

Wednesday, 27 September 2023

Present: J Raisin (Chair)

R Dawson
R Irvine
P Fieldsend
P Moloney
D Ridland

17 **WELCOME AND INTRODUCTION**

The Chair welcomed everyone to the meeting.

18 **APOLOGIES**

Apologies had been received from Lyn Robinson and Stephan Van Arendsen.

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

There were no declarations of interests.

20 **MINUTES**

Resolved – That the minutes of the Local Pensions Board meeting held on 20 June 2023 be approved as an accurate record.

21 **GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND**

The Head of Finance and Risk introduced the report of the Director of Pensions. The report highlighted the key findings and other matters arising from Grant Thornton’s external audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2023. Subject to the satisfactory completion of the outstanding audit work, Grant Thornton’s anticipated audit opinion would be unqualified.

Officers explained to members that there had been a national delay in signing off Council accounts. It was expected that the Statement of Accounts for 2021/22 would be approved by Audit & Risk Management Committee in October 2023. Members noted it was a positive report overall.

Resolved – That the report be noted.

22 **MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2022/23 AND LETTER OF REPRESENTATION**

The Head of Finance and Risk introduced the report of the Director of Pensions. This report provided Board Members with a copy of the report taken to Pensions Committee which presented:

- Annual Report & Accounts for Merseyside Pension Fund (MPF) for 2021/22
- A letter of representation prepared by Officers on behalf of the Committee.

Members commented on the readability of the report and stated it was presented well. Members noted an increase in membership, however officers explained this was due to the timing of the report and therefore this figure was likely to drop.

Resolved – That the report be noted.

23 LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE-ADMINISTRATION AND FUNDING

The Head of Pensions Administration introduced the report of the Director of Pensions. The report provided an overview of the legislative changes affecting the administration of the Local Government Pension Scheme (LGPS) along with developments in relation to the Cost Control Mechanism under section 12 of the Public Service Pensions Act 2013. The Cost Control Mechanism sought to equitably share the cost of the scheme between
members and local taxpayers.

Resolved – That the report be noted.

24 LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION: NEXT STEPS ON INVESTMENTS

The Director of Pension introduced the report. The report provided Board Members with a copy of a report taken to Pensions Committee giving details of a consultation by the Department for Levelling Up, Housing & Communities seeking views on the Local Government Pension Scheme’s “next steps on investments” and sought comment on the proposed response which had been prepared by officers.

Members queried if there was a movement toward the further merging of LGPS funds. Officers responded that the focus was on merging pools and encouraging the use of pooling of investments. Members felt the response was positive on a local level but this did not necessarily reflect the effect on arrangements nationally. Members noted media coverage regarding the potential for Local Government Pension Funds to be investing in venture capital to be a concern.

Resolved – That the report be noted.

25 **NORTHERN LGPS UPDATE**

The Director of Pension introduced the report. This report provided Board Members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS. Minutes of the previous Northern LGPS Joint Committee meeting were appended for noting.

Resolved – That the minutes of the Joint Committee meeting be noted.

26 **MINUTES OF WORKING PARTY MEETINGS**

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

Resolved – That the minutes of the working party be approved.

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 **MERSEYSIDE PENSION FUND INTERNAL AUDIT ANNUAL REPORT 2022/23**

The Chief Internal Auditor presented his summary report of the programme of audits of the Fund reviewing relevant areas of risk to the Fund, along with his overall opinion.
The Chair proposed an amended recommendation noting the positive audit opinion. This was supported by Board Members.

Resolved - That it be noted that in 22/23 internal audit work undertaken found that there was an adequate and effective level of control and this was a positive outcome for the fund.

29 **PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 APRIL – 30 JUNE 2023]**

The Head of Pensions Administration introduced this report which provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 April 2023 to 30 June 2023.

Resolved – The Board commended the Fund on the provision of the 'pay your pension some attention awareness week' during September 2023 and that the report be noted.

30 **RISK REGISTER**

The Director of Pensions introduced this report which presented a copy of Merseyside Pension Fund's Risk Register for consideration by the Board.

Resolved - That the changes to the risk register be noted.

LOCAL PENSION BOARD

Tuesday, 12 December 2023

Present: J Raisin (Chair)

R Dawson
P Fieldsend
D Ridland
P Moloney
L Robinson
S Van Arendsen

31 **WELCOME AND INTRODUCTION**

The Chair welcomed everyone to the meeting.

32 **APOLOGIES**

Apologies were received from Roger Irvine and Matthew Bennett.

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

There were no declarations of interests.

34 **MINUTES**

The Chair noted that the minutes of the meeting of 27 September 2023 were to be received at the following meeting of the Local Pension Board in March 2024.

35 **PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 JULY – 30 SEPT 2023]**

The Head of Pension Administration introduced the report to members. The report provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period: 1 July 2023 to 30 September 2023.

Resolved - That report and the exempt appendix be noted.

36 **LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE - THE MCCLOUD REMEDY**

The Head of Pensions Administration introduced the report to members. The report provided an update on legislation related to the ‘McCloud Remedy’, and the guidance that had been published to support implementation by the Fund’s Administration Team.

Members of the board requested officers to enquire whether any of the administration cost of the remedy could be recovered from government.

Members of the board provided feedback regarding recent LGA fundamental training and suggested it could be improved.

Officers provided a cyber security update, explaining to board members that phishing emails are becoming more frequent and sophisticated but assuring staff are aware of this and all have undertaken the Cyber Ninja training. Members commented on the low score of the risk on the risk register, officers explained that this was because of the way Wirral Council currently score these risks, and the fact that a cyber security team is in place, so scores were likely to change.

It was suggested that the costs to the fund of remedying McCloud could fall within the New Burdens Doctrine and officers were asked to write to the Department to this effect.

Resolved – To note that the legislative change to remove the age discrimination from the Local Government Pension Scheme (LGPS), and implementation of the revised regulations is a major resource intensive project to ensure the Fund's continued compliance in delivering the 'McCloud Remedy'.

That officers write to the Scheme Advisory Board as the liaison body, representing LGPS fund views to the Department for Levelling Up Housing and Communities (DLUHC), with regard to the costs of implementing McCloud and requesting reimbursement under the New Burdens Doctrine.

Officers to discuss the scope and format of the Fundamental Training Course with LGA to ensure the course meets the needs of delegates.

37 **ESTABLISHMENT OF WORKING PARTY**

The Director of Pension introduced the report to Members. The report provided Board members with a copy of the report taken to Pensions Committee regarding the establishment of a Responsible Investment Working Party.

Officers confirmed that both PIRC and Redington could be involved with meetings of the working party, the Chair would be the same Chair as for the Pensions Committee, and that the working party does not have decision making powers. Board members asked for assurance that the Responsible Investment Working Party would enhance considerations but not override the considerations of the Investment Monitoring Working Party, which was provided.

Resolved - That the report be noted.

38 REVISED INVESTMENT STRATEGY

The Director of Pensions introduced the report to members. The purpose of the report was to provide Board members with a copy of a report on proposed revisions to the Fund's strategic asset allocation recently taken to Pensions Committee.

Officers informed Board members that investments are allocated geographically and a reweighting closer to global index weights was recommended. Currently bonds are all UK based but the fund was looking to diversify the range of fixed income instruments and broaden exposures globally.

Officers were focused on minimising the costs of transitions. Income was to be harvested from equity and a cash management forecast had been developed for the next 5 years, which recommended targeting 60% of contractual income.

In response to an inquiry in relation to the risks of modern slavery occurring in supply chains, officers informed Board members that EU companies are to be required to make formal declarations regarding their supply chains which was raising the profile of the issue., It is an important element of the Fund's RI policy. On behalf of members of LAPFF (which included MPF), PIRC was engaging with a range of businesses on this matter.

Resolved – That the report be noted.

39 UPDATE ON CATALYST FUND

The Director of Pensions introduced the report to members. The purpose of the report was to provide Board members with a copy of a report on the Catalyst Fund recently taken to Pensions Committee.

Officers informed Board members that several previous investments had been completed, all of which were within the Merseyside area and had either environmental or social benefits. Officers and Members were keen to identify opportunities providing commercial returns combined with environmental and social benefits.

Resolved - That the report be noted.

40 NORTHERN LGPS UPDATE

The Director of Pensions introduced the report to Members. The report provided Board members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS. Minutes of the previous Northern LGPS Joint Committee meeting were appended for noting.

Resolved - That the minutes of the Joint Committee meeting be noted.

41 **MINUTES OF WORKING PARTY MEETINGS**

The Director of Pensions introduced the report to Members. The purpose of the report was to provide Board members with the minutes of meetings of Working Parties held since the previous Board meeting.

Members commented on the broad agenda and healthy attendance. Robin Dawson noted the discussion regarding efforts to reduce opt out from the Scheme and volunteered, as someone in receipt of an MPF pension, to support this initiative by providing a testimonial or the like.

Resolved - That the minutes be noted.

42 **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.

43 **RISK REGISTER**

The Director of Pensions introduced this report which presented a copy of Merseyside Pension Fund's Risk Register for consideration by the Board.

Resolved - That the changes to the risk register be noted.

WIRRAL

LOCAL PENSION BOARD

27 MARCH 2024

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 Local Pension Board 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 Local Pension Board to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in their capacity as Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 This is the most appropriate option for informing the Local Pensions Board of regulatory, legislative and industry developments.

3.0 BACKGROUND INFORMATION

Pension Increases 2024

3.1 HM Treasury published a written ministerial statement concerning the increases to apply for public service pensions in April 2024. This confirms that LGPS pensions will increase by 6.7% from 8 April 2024 (a lower pro-rata increase will apply to pensions that started after 23 April 2023) and active pension accounts will be revalued by 6.7% from 6 April 2024.

3.2 This increase is based on the change in the Consumer Prices Index in the year to September 2023.

3.3 The ministerial statement also confirms the revaluation rates that will apply when revaluing earned pension credited in respect of a Club transfer from other public service pension schemes.

The Pension Regulator's 'General Code of Practice'

3.4 The Pension Regulators (TPR) remit in relation to public service pension schemes is narrower than it is in the private sector. Since the reforms in the Public Service Pensions Act 2013, TPR does have regulatory oversight for public service pension schemes, as well as being responsible for setting governance and administration standards.

3.5 Section 90A(1) of the Pensions Act 2004 gives TPR power to issue codes of practice in relation to public service pension schemes. This resulted in the issue of 'Code of Practice (no.14): Governance and Administration of Public Service Pension Schemes'.

3.6 Multiple codes existed for different types of schemes which have now been combined into a new 'General Code of Practice', laid before Parliament on 10 January 2024 and is expected to take effect from 27 March 2024.

3.7 In addition to making the 'General Code' more user friendly and accessible, it consolidates and expands on ten existing Codes of Practice, including Code No.14 (Governance & Administration of Public Service Pension Schemes).

3.8 It will also cover the new requirements of s249A Pensions Act 2004 (originally introduced to comply with IORP II) and the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018, to establish and operate an effective system of governance including internal controls.

3.9 The 'General Code' contains 51 modules covering five areas which are:

- the governing body,
- funding and investment,
- administration,
- communications and disclosure,
- and reporting to TPR.

Not all the modules are legal requirements for the LGPS but TPR's directive is that they should be viewed as best practice to strengthen future governance and internal controls of the scheme.

3.10 The 'General Code' contains some good practice modules on investments for Public Service Pension Funds, including investment governance, investment monitoring and climate change. TPR has clarified that the scheme managers of Local Government Pension Schemes do not have the same statutory obligations in this area, but it is good practice for them to approach investment governance and monitoring in the same manner as private schemes.

3.11 The 'General Code' introduces a full module in respect of 'Cyber Controls' which formalises earlier guidance from TPR on cyber security principles for pension schemes. The module states that scheme managers of public service pension schemes must establish and operate internal controls and develop a cyber security and risk management strategy, including incident response plans and third-party assessment frameworks.

3.12 A second new module relates to the risk of pension scams, associated with scheme members transferring their benefits out of the scheme to alternative arrangements that are either criminal or offer little or no protection of future benefits. This new module stipulates that Scheme Managers are required to undertake appropriate due diligence to identify possible scams and to take steps to ensure that members are aware of the risks of pension scams.

3.13 TPR has introduced a programme of webinars following publication of the 'General Code' to provide key points of clarification in relation to:

- **The definition of the governing body -** for public service pension schemes this is confirmed to be the scheme manager. The code confirms that the governing body does <u>not</u> include the Pension Board and where Pension Boards have specific responsibilities this is explicit in the relevant modules.
- **The application of the Effective Systems of Governance (ESOG) and Own Risk Assessment (ORA) for Public Service Pension Schemes -** TPR confirmed that these do not apply to public service pension schemes.

However, schemes may need to comply with those modules that make up the ESOG and some elements of the ORA may be good practice for schemes to consider.

3.14 Although TPR's latest research on governance and administration shows that the LGPS already has high standards of governance, to demonstrate compliance Fund Officers are currently working with the Fund's professional advisers to undertake a gap analysis of the Fund's policies and reporting procedures against the 'General Code' with consideration of where policies need to be updated or drafted.

3.15 In addition, ahead of actions emerging from the Scheme Advisory Board's Good Governance project and the training requirements emerging from the Pooling consultation, an assessment of training needs of the Pension Committee, Pension Board and Fund Officers will be incorporated into the Fund's work plan to ensure compliance with the Code, including responsibilities and timescales.

4.0 FINANCIAL IMPLICATIONS

4.1 The costs related to statutory pension increases for 2024 will be met by the Fund's operational budget for 2024/25.

4.2 The Governance review of the Fund following the Pensions Regulator's publication of the 'General Code of Practice' are included in the operational budget for 2024/25.

5.0 LEGAL IMPLICATIONS

5.1 The administering authority's solicitor, acting for the Fund, will provide advice to ensure compliance with the Pension Regulator's 'General Code of Practice' in line with legal requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Although the 'General Code of Practice' provides an opportunity for LGPS Funds to review current practice, it also presents further resource challenges during an extremely busy time with competing pressures to deliver the McCloud remedy, and national initiatives such as the Fund's connection to the Pension Dashboard Programme and further expected consultations on regulatory changes.

6.2 TPR has outlined that where schemes have undertaken a gap analysis, they will take a pragmatic view when considering compliance. The key factor is whether a scheme has a bespoke action plan in place, which includes timescales for demonstrating compliance.

7.0 RELEVANT RISKS

7.1 Failure to comply with the 'General Code of Practice' will result in the ineffective management of the Fund and 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.

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

The Pension Regulator's 'General Code of Practice'
https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice

The Pension Regulator's research on governance and administration
https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#b856d02f01714192895cdb91e84a4410

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.2(b) of its Terms of Reference:

(d) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

Subject History (last 3 years)

Council Meeting	Date
Standing Agenda Item	

WIRRAL

LOCAL PENSION BOARD

27 MARCH 2024

REPORT TITLE:	**MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2024/25**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board Members with a copy of the budget report recently taken to Pensions Committee.

RECOMMENDATION/S

The Local Pension Board notes the report and considers the best practice requirement for Local Government Pension Schemes (LGPS) funds to set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION/S

The approval of the budget for Merseyside Pension Fund (MPF) by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. The LGPS Scheme Advisory Board's Good Governance report recommends that LGPS funds set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.

2.0 OTHER OPTIONS CONSIDERED

2.1 This is the most appropriate option for informing the Local Pension Board of developments at the Fund to assist it in fulfilling its statutory requirements.

3.0 BACKGROUND INFORMATION

3.1 The headline figures are that, during the financial year 2024/25, we are estimating that MPF will pay £442m in pension benefits and receive £235m in contributions from employers and employees. The Fund has a value of £10.5bn at 31 December 2023. The proposed administration costs of £22.7m including £12.7m of investment management charges to external managers represent a cost of £152.77 per member of the scheme or 0.22% of assets under management. Taken separately the external investment management costs are approximately £85.36 per member or 0.12% of assets under management.

3.2 The budget for 2024/25 is higher at £22.7m than £21.3m in 2023/24 primarily due to higher investment management fees and increased staffing costs being forecast.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none directly arising from this report. The accompanying report sets out the financial implications for MPF.

5.0 LEGAL IMPLICATIONS

5.1 As set out in the accompanying report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.0 There are none directly arising from this report. The Local Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the performance of Fund's various functions and activities.

7.0 RELEVANT RISKS

7.1 A failure to provide the Board with information on the Fund's financial arrangements could hinder the Board in the discharge of its activities.

8.0 ENGAGEMENT/CONSULTATION

8.0 The relevant consultations are set out in the accompanying 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 none directly arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: **Donna Smith**
Head of Finance and Risk
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APPENDICES

Appendix 1 – MPF Budget report
Appendix 2 – The budget for 2024/25 including the probable out-turn for 2023/24 is attached as appendix 1 to this report.

BACKGROUND PAPERS

CIPFA – Service Reporting Code of Practice for Local Authorities

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.3(b) of its Terms of Reference:

(a) Review regular compliance monitoring reports which shall include reports to, and decisions made under, the Regulations by the Committee.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Local Pensions Board	20 June 2023 22 February 2023 23 February 2022 23 June 2021 30 March 2021

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WIRRAL

PENSIONS COMMITTEE

19 MARCH 2024

REPORT TITLE:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2024/25
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to request that Members approve the budget for Merseyside Pension Fund (MPF) for the financial year 2024/25.

RECOMMENDATION/S: That

(1) The Pensions Committee be recommended to approve the budget for 2024/25. (Subject to review of charges from the administering authority for support services).

(2) A further report on the outturn for 2023/24 with finalised estimates, in particular for departmental & central support charges and any known changes in supplies and services for 2024/25, be presented to Members of Pensions Committee at a future meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

2.1 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.

2.2 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 2024/25, we are estimating that MPF will pay £442m in pension benefits and receive £235m in contributions from employers and employees. The Fund has a value of £10.5bn at 31 December 2023. The proposed administration costs of £22.7m including £12.7m of investment management charges to external managers represent a cost of £152.77 per member of the scheme or 0.22% of assets under management. Taken separately the external investment management costs are approximately £85.36 per member or 0.12% of assets under management.

3.2 The budget for 2024/25 is higher at £22.7m than £21.3m in 2023/24 primarily due to higher investment management fees and increased staffing costs being forecast.

3.3 The method used to compile estimates of expenditure for 2024/25 is as follows:

Staffing	Current structure to be fully staffed throughout year.
Investment management Fees	Estimate based on normal market conditions.
Premises	Agreed as a notional charge based on market rates (MPF owns building).
Transport, Conferences and Subsistence	Estimated requirements for current year.
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements.
Inflation adjustments	CPI 6.7% as at September 2023.
Investment Performance	1.9% / 2.3% bonds; 6.5% equities;

	0% of performance targets met for active management.

3.4 This report includes a predicted out-turn for 2023/24. Due to the volatility in financial markets and delays in billing from certain third-party suppliers it is not possible to predict the outturn with complete accuracy. Therefore, some estimates have been used, and it is proposed to report on the actual outturn at a future meeting of Pensions Committee. At present, the outturn is lower than predicted largely due to lower investment management fees, budgeted projects and areas of work being deferred to 2024/25 and assumptions used for staffing.

3.5 The Fund's major expenditure is on investment management fees. For 2024/25 it is assumed that the contractual arrangements in respect of assets under management remain as per 2023/24, although the implementation of the strategic asset allocation changes are planned to commence during 2024/25, these changes are expected to be at least cost neutral and may result in financial savings; this will be reflected in future reporting. Investment management fees are mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise substantially. Accordingly, when this expenditure rises there is a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2023/24, the outturn is expected to be lower than the estimate made last year due to a deterioration in market conditions following approval of that budget and disappointing performance from some external managers.

3.6 The second highest expenditure is on staffing; employee costs overall increase in 2024/25 to reflect a budgeted pay increase of 4% and the implementation of a staffing review that is underway. The aims of the staffing reviews that have taken place during 2023/24 and the estimated growth element of the budget are to manage the growing complexities of the Fund's investment, address the challenges of staff recruitment and retention, and support the objective of bringing more assets in-house. The outturn for 2023/24 will be underspent relative to budget due to assumptions used, including the progress made in year, of staffing reviews.

3.7 The predicted 2023/24 outturn for supplies is lower than estimated largely due to an underspend on costs associated with IT, investment selection services and pooling; these budgets have been reviewed, updated and carried forward to 2024/25.

3.8 For departmental & central support charges, at present, the estimates have been left the same as last year; the figure reported to Committee last year was £283,457. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

4.0 FINANCIAL IMPLICATIONS

4.1 This report includes the probable outturn for 2023/24 and the budget proposed for 2024/25; 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, income and contributions. The full costs are estimated to be £152.77 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 from this report.

7.0 RELEVANT RISKS

7.1 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 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

The budget for 2024/25 including the probable out-turn for 2023/24 is attached as appendix 1 to this report.

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

Chartered Institute of Public Finance Accountants (CIPFA) – Service Reporting Code of Practice for Local Authorities

National LGPS Scheme Advisory Board – Good Governance report

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**
Pensions Committee	11 July 2023 21 February 2023 22 June 2022 23 February 2022

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Appendix 1

Value of the Fund	£10.5bn	*31/12/2023*
Investment income Received	£287m	*Projected 2024/25*
Pensions Paid	£442m	*Projected 2024/25*
Contributions Received	£235m	*Projected 2024/25*
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 2023/24 (£)	Probable Out-Turn 2023/24	Budget 2024/25 (£)
Employees				
	Pay, NI and Pension	4,669,483	3,993,569	5,048,728
	Training	20,000	13,524	20,000
	Other Staffing Costs	41,756	48,926	72,477
		4,731,239	**4,056,019**	**5,141,205**
Premises				
	Rents	212,536	212,536	224,612
		212,536	**212,536**	**224,612**
Transport				
	Public Transport Expenses	36,755	8,798	21,740
	Car Allowances	2,000	656	1,500
		38,755	**9,454**	**23,240**
Supplies				

	Furniture and Office Equipment	10,000	4,655	103,000
	Printing and Stationery	13,000	8,352	16,500
	Computer Development and Hardware	703,500	585,656	741,500
	Postages and Telephones	74,500	65,886	72,500
	External Audit	50,000	50,000	50,000
	Services and Consultants Fees	1,468,249	1,212,005	1,552,457
	Conferences and Subsistence	20,549	25,697	29,088
	Subscriptions	211,727	185,813	213,473
	Other	65,806	29,224	67,141
		2,617,731	**2,167,288**	**2,845,659**
Third Party				
	Medical Fees	2,000	1,000	2,000
	Bank Charges	5,000	1,115	5,000
	Investment Management Fees	11,998,660	10,868,761	12,730,304
	Custodian Fees	250,000	224,348	250,000
	Actuarial Fees	750,000	719,431	750,000
	Other Hired and Contracted Services	437,274	455,691	528,803
		13,442,934	**12,270,346**	**14,266,107**
Departmental & Central Support Charges		283,457	283,457	283,457
		283,457	**283,457**	**283,457**
Total Expenditure		**21,326,652**	**18,999,100**	**22,784,280**

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LOCAL PENSION BOARD

27 MARCH 2024

REPORT TITLE:	**TREASURY MANAGEMENT POLICY FOR 2024/25 AND ANNUAL REPORT FOR 2022/23**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board Members with a copy of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2024/25 recently taken to Pensions Committee.

RECOMMENDATION/S

That the Local Pension Board be recommended to note the report and consider the implications for Merseyside Pension Fund (MPF).

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION/S

1.0 The approval of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. It is important that members of the Board be kept up to date with Fund developments as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 This is the most appropriate option for informing the Local Pension Board of developments at the Fund. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year.

3.0 BACKGROUND INFORMATION

3.1 Treasury management activities are defined as: the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none directly arising from this report. The accompanying report sets out the financial implications for MPF.

5.0 LEGAL IMPLICATIONS

5.1 As set out in the accompanying report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.0 There are none directly arising from this report. The Local Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the performance of Fund's various functions and activities.

7.0 RELEVANT RISKS

7.1 A failure to provide the Board with information on the Fund's financial arrangements could hinder the Board in the discharge of its activities.

8.0 ENGAGEMENT/CONSULTATION

8.0 The relevant consultations are set out in the accompanying 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 none directly arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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APPENDICES

Appendix 1 – MPF Treasury Management report

BACKGROUND PAPERS

CIPFA Treasury Management Code of Practice and Guidance Notes.

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.3(b) of its Terms of Reference:

(d) Monitor performance of administration, governance processes and investments against key performance targets and indicators.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Local Pensions Board	24 February 2022 23 June 2021 30 March 2021 4 February 2020

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WIRRAL

PENSIONS COMMITTEE

19 MARCH 2024

REPORT TITLE:	**TREASURY MANAGEMENT POLICY FOR 2024/25 AND ANNUAL REPORT FOR 2022/23**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to request that Members approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2024/25.

RECOMMENDATION/S

The Pensions Committee be recommended to approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund for the financial year 2024/25.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The approval of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year.

3.0 BACKGROUND INFORMATION

3.1 Treasury management activities are defined as: the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.2 The Treasury Management Policy relates to money managed in-house. It excludes cash balances held by investment managers in respect of the external mandates and the internal equity investment managers.

3.3 The Fund does not borrow and therefore the policy is concerned with cash deposits only.

3.4 The main aims when managing liquid resources are the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows; an optimal return on investments commensurate with proper levels of security and liquidity.

3.5 Effective management and the control of risk are prime objectives of the treasury management policy and practices.

3.6 The Fund will run minimal cash balances to pay pensions and meet other obligations. The core position is 1% of Fund assets as agreed within the strategic asset allocation.

3.7 Internally managed investment cashflows will continue to be channelled through the Custodian, to maximise benefits and efficiencies agreed under the contract.

3.8 Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support. The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts.

3.9 The Fund's cash flows for dealings with members remains negative with outflows to pensioners exceeding income from contributions. With the 2022 triennial valuation's improved results reducing deficit payments, this reduced contribution income further. The Fund's cashflows has been and will continue to be closely monitored throughout 2024/25. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate and needs effective management with daily cashflows and regular reporting being essential.

3.10 The Bank of England maintained Bank Rate at 5.25% in February 2024. This followed a 0.25% rise in August and the thirteenth successive rise since December 2021.

3.11 MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.

3.12 The policy statement for 2024/25 is attached as Appendix 1 to this report. There are no changes to the policy approved by Pensions Committee for 2023/24.

Annual Report 2022/23

3.13 In accordance with the Treasury Management Policy for 2022/23, the following items provide a report on treasury management activities for that year:

- Managing counterparty risk continued to be the overarching investment priority.
- Investments during the year included call (instant access) accounts and deposits with UK banks, and investments in AAA rated money market funds with a constant Net Asset Value.
- Over the twelve-month period, Northern Trust calculated the cash performance to be 2.19% against a benchmark performance (7-day SONIA) of 2.13%.
- Transactions were undertaken to reflect the day-to-day cash flows of the Fund.
- There was one incidence when the Fund was non-compliant with the Treasury Management Policy throughout 2022/23. The Fund breached the deposit limit held with its current bankers, Lloyds, this was rectified the next working day, with no financial disadvantage to the Fund.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

5.1 There are no implications arising directly from this report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The treasury management policy statement is concerned mainly with the mitigation of financial and counterparty risks.

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

The Treasury Management Policy Statement 2024/25 is attached as appendix 1 to this report

BACKGROUND PAPERS
CIPFA Treasury Management Code of Practice and Guidance Notes.

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
Pensions Committee	**21 February 2023** **23 February 2022** **2 February 2021**

Appendix 1

MERSEYSIDE PENSION FUND
TREASURY MANAGEMENT POLICY STATEMENT

1 INTRODUCTION

1.1 Merseyside Pension Fund adopts the key principles of 'CIPFA's Treasury Management in the Public Services: Code of Practice' (the Code), as described in Section 4 of that Code.

1.2 Accordingly, the Fund will create and maintain, as the cornerstones for effective treasury management:

- This treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which this organisation will seek to achieve these policies and objectives, and prescribing how it will manage and control these activities.

2 DELEGATION

2.1 Pensions Committee will receive reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of each financial year and an annual report after its close. The Investment Monitoring Working Party (IMWP) will receive interim reports on treasury management performance as required.

2.2 Pensions Committee is responsible for the implementation and regular monitoring of its treasury management policies and practices and will delegate execution and administration of treasury management decisions to the Director of Pensions who will act in accordance with this policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

2.3 The IMWP is responsible for ensuring effective scrutiny of the treasury management strategy, policies and performance.

3 DEFINITION

3.1 Treasury management activities are defined as: the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.2 The Fund regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Fund.

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

TREASURY MANAGEMENT PRACTICES (TMPs)

4 TMP 1 Risk Management

4.1 The Fund regards a key objective of its treasury management activities to be the security of the principal of the sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments.

4.2 The Director of Pensions will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Fund's objectives.

4.3 The Fund will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 and listed in the schedule (4.1, 4.2) to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

4.4 The Fund will ensure that it has adequate though not excessive cash resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business objectives.

4.5 The Fund will manage its exposure to interest rates with a view to securing its interest revenue as far as is possible within cash flow constraints and by the prudent use of permissible instruments.

4.6 The Fund will achieve these objectives by the prudent use of its approved investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level and structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

4.7 It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact.

4.8 The Fund will keep under review the sensitivity of its treasury activities to inflation and will seek to manage the risk accordingly in the context of the whole Fund's inflation exposures.

4.9 The Fund will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its counterparty list, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

4.10 The Fund recognises that future legislative or regulatory changes may impact on its treasury management activities and so far as it is reasonably able to do so will seek to minimise the risk of these impacting adversely on the organisation.

4.11 The Fund will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

4.12 The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

5 TMP 2 Performance Measurement

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

6 TMP 3 Decision Making and Analysis

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

7 TMP 4 Approved Instruments, Methods and Techniques

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

8 TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

8.1 The Fund considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

8.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

8.3 If and when the Fund intends, as a result of a lack of resources or other circumstances to depart from these principles, the “responsible officer” will ensure that the reasons are properly reported, and the implications properly considered and evaluated.

8.4 The Director of Pensions is the responsible officer. The responsible officer shall ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule 5 to this document.

8.5 The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

8.6 The delegations to the responsible officer in respect of treasury management are set out in the schedule (5) to this document. The responsible officer will fulfil all such responsibilities in accordance with this policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

9 TMP 6 Reporting Requirements and Management Information Requirements

9.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies.

9.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

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

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

10 TMP 7 Budgeting, Accounting and Audit Arrangements

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

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

11 TMP 8 Cash and cash flow management

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

12 TMP 9 Money Laundering

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

13 TMP 10 Training and Qualifications

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

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

14 TMP 11 Use of external service providers

14.1 The Fund recognises that responsibility for treasury management decisions remains with the Fund at all times. The Fund recognises there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been subjected to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

14.2 The Fund will ensure, where feasible and necessary that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangement’s rests with the Director of Pensions. Details of the current arrangements are set out in the schedule (9.1, 9.2) to this document.

15 TMP 12 Corporate Governance

15.1 The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

15.2 The Fund has adopted and has implemented the key principles of the Treasury Management Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management and the responsible officer shall monitor and, if and when necessary, report upon the effectiveness of these arrangements.

MERSEYSIDE PENSION FUND:

SCHEDULE TO TREASURY MANAGEMENT POLICY

SCHEDULE 1:
RISK MANAGEMENT

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

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

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

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

1.2 Under exceptional circumstances e.g. transitional arrangements on appointment of new Investment Managers, these limits may be exceeded for a limited period with the prior written approval of the Director of Pensions and/or Fund Operating Group (FOG). Such instances will be reported to Pensions Committee as part of the Treasury Management Annual Report.

1.3 The Fund and the administering Authority (Wirral Council) and its advisors, Arlingclose Ltd, select financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)

- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.
- Any institution can be suspended or removed should any of the factors identified above give rise to concern.

1.4 It remains the Fund's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

1.5 The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts.

1.6 The Fund requires liquid resources to meet pension payments, investment commitments and administrative expenses. The cash flows from realisation and purchase of investments can be large and concentrated and the Fund needs to maintain facilities and resources to meet these. On days when there is a significant transition of assets between asset managers, appropriate arrangements are made with the Fund's bankers regarding the timings of the receipt and payments of cash flows (day light exposure).

1.7 The Fund's cash flows for dealing with members is negative with outflows to pensioners more than income from contributions. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate and daily cashflows and regular reporting is essential.

1.8 It will manage its exposure to fluctuations in exchange rates. In general, the Fund will only hold foreign currencies to fund pending investment transactions thus limiting the exposure of treasury management activities to fluctuations in exchange rates so as to minimise any detrimental impact.

SCHEDULE 2:
PERFORMANCE MEASUREMENT

2.1 The performance of the Fund's investments is independently measured by Northern Trust. The performance of cash is included as part of this process and is benchmarked against an appropriate measure. This performance measurement is subject to scrutiny by Pensions Committee and IMWP.

2.2 The costs of investment management generally including treasury management expenses are separately accounted for in the Annual Statement of Accounts. Comparisons are made between internal and external fund management costs.

SCHEDULE 3:
DECISION MAKING AND ANALYSIS

3.1 Decision-making is delegated as indicated in the management arrangements set out in schedule 5. Day to day decisions are constrained by the risk controls set out in the other schedules such as approved instruments and counterparties etc.

3.2 Tactical decision making by officers will seek to use information from brokers to meet cash flows whilst gaining a maximum return within risk constraints. Officers will have access to up to date market information.

3.3 Strategic decision making by officers and members will seek to set in place a plan that meets the needs of the Pension Fund in relation to its overall investment plan. The external advisers to the Fund (actuary and independent advisers) will help to ensure that decisions are well informed.

3.4 A risk assessment form will be completed for each treasury management transaction (excluding cash at bank), detailing the circumstances at the time the decision is made and providing evidence of the issues considered.

SCHEDULE 4:
APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 The Fund will use the following instruments for its internally managed treasury management activities. The Fund does not use derivatives for risk control associated with the treasury management function but may hold derivatives for risk control within the overall portfolio and as investments (these may be held by internal and external managers)

- AAA rated money market funds
- Call funds (instant access deposits)
- Fixed term deposits with counterparties
- Forward Fixed term deposits with counterparties
- Structured Fixed term deposits with counterparties (See Note 1)
- Cash at bank (Lloyds and Northern Trust)

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

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

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

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

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

Investment Monitoring Working Party (IMWP)
Makes recommendations to Pensions Committee following consultation with in-house managers and external advisers.

Director of Pensions
Responsibilities as set out in twelve Treasury Management Practices.

Fund Operating Group (FOG)
Includes reviewing the day to day operation of the investments and accountancy function.

Head of Finance & Risk
Responsible for team that undertakes treasury management activities.

5.2 The day to day transactions for treasury management are executed by the treasury management team overseen by the Fund Accountant(s).

5.3 The transmission of funds is carried out by the settlements team through electronic banking system and the recording of transactions is monitored by the Senior Fund Accountant ensuring an adequate separation of duties in the system.

5.4 The physical authorisation of the release of payments from the bank account is made by the Fund's authorised signatories as approved by Pensions Committee.

5.5 There are sufficient staff employed in the process to cover absences and maintain a separation of duties; the duties of staff are outlined in their job descriptions.

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

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

5.7 Dealing arrangements will be detailed within application forms (where applicable) and approved by an authorised signatory.

5.8 The Fund's policy is not to tape treasury management conversations, although faxed or emailed confirmation is required of the deal from the broker or directly from the counterparty (if non-standard) before the payment is released.

5.9 Treasury management facilities are set up with the approval of at least one of the Fund's authorised signatories.

5.10 Treasury management facilities provided on the internet will be agreed with the Director of Pensions and will be scrutinised by the Compliance Section to ensure all necessary controls are in place.

SCHEDULE 6:
REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, including budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

6.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

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

6.4 The Fund Operating Group will receive interim reports on treasury management, with significant issues reported to IMWP.

SCHEDULE 7:
BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

SCHEDULE 8:
CASH FLOW

8.1 Given the unpredictable nature of cash flows in investment management and in the payment of lump sum benefits, the Fund is not able to forecast cash flows precisely. The Fund has designed its cash portfolio to meet the principal material predictable cash flows i.e. pension pay days and retains a sufficient level of liquidity to cover other calls on cash.

8.2 The Settlements officer maintains cash flow statements on a monthly basis updated daily for predictable cash flows and uses this as a tool to assist the treasury management function.

SCHEDULE 9:
USE OF EXTERNAL PROVIDERS

9.1 The main providers of services to the Fund are money market brokers. As the Fund does not borrow funds it does not pay commission to the brokers. The performance of brokers is under regular review by staff.

9.2 The Fund’s main clearing bank contract is the subject of regular tendering exercises.

9.3 The Fund’s Custodian contract is subject of regular tendering exercises.

SCHEDULE 10:
CORPORATE GOVERNANCE AUDIT AND COMPLIANCE

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

- Internal policies
- Internal records of deals
- Counterparty confirmations

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WIRRAL

LOCAL PENSION BOARD

27 MARCH 2024

REPORT TITLE:	**LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION OUTCOME: NEXT STEPS ON INVESTMENTS**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides the Local Pension Board with details of the response to a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) which sought views on the Local Government Pension Scheme's (LGPS) "next steps on investments".

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 As an important area of policy, it is important that the Local Pension Board is informed of the progress of the consultation.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant to this report. It is an important area of policy on which the Local Pension Board should be informed.

3.0 BACKGROUND INFORMATION

3.1 The consultation asked 15 questions, seeking views on proposals in 5 areas:

1. **Accelerating and expanding pooling**, with administering authorities confirming how they are investing their funds and why. While Government state that pooling has delivered substantial benefits so far, it believes that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. A deadline for asset transition by March 2025 is proposed, and Government notes it will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, Government wants to see a transition towards fewer pools to maximise benefits of scale.

2. **Requiring LGPS funds to have a plan to invest up to 5% of assets to support levelling up in the UK**, as announced in the Levelling Up White Paper (LUWP). The consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.

3. **An ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity**. Government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.

4. Proposed amendments to the LGPS Regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA).

5. A technical change to the definition of investments within LGPS regulations.

3.2 The Northern LGPS (NLGPS) issued a response to the consultation, as did each of the three partner funds. The NLGPS response is attached at Appendix A.

3.3 The NLGPS response repeats many of the messages from the response to the 2019 consultation, in particular:

- Government needs to focus on delivering successful outcomes.
- LGPS funds are diverse – a ‘one size fits all’ approach is not appropriate.
- Funds’ fiduciary duty is paramoun.t

3.4 In addition, the response makes the following points:

- Consistent reporting across funds and pools, whilst a worthwhile goal, is much more difficult than it sounds.
- NLGPS Pool is supportive of greater cross-pool collaboration.
- Long-term benefits of pool merger unlikely to outweigh short term disruption.
- Pools must deliver funds’ strategic asset allocation.
- Concerns regarding the conflicts of interest from Pools advising funds and individual funds’ ability (or lack of) to influence Pools.

3.5 CONSULTATION OUTCOME

Alongside the Chancellor’s Autumn Statement, the response to the “next steps on investments” consultation was published by DLUHC on 22 November 2023. The consultation largely adopts the measures the Government originally consulted on despite significant negative feedback to several of the proposals.

3.6 The measures the Government is due to adopt are to:

1. set out in revised Investment Strategy Statement (ISS) guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled;

2. revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation;
3. implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy;

4. revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark;

5. make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling;

6. amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan;

7. revise ISS guidance to require funds to consider investments to meet the government’s ambition of a 10% allocation to private equity.

3.7 The Directors of the three NLGPS Partner Funds recently met with the lead Civil Servant for the LGPS at the Department for Levelling Up, Housing and Communities (DLUHC) to discuss the measures and their potential implications for the NLGPS. Whilst it is clear that DLUHC's preferred model of pooling will be very different to NLGPS, indications are that Government will take more of a 'comply or explain' approach to this than seeking to use its direction powers under the LGPS Investment Regulations.

3.8 Much of the detail will be set out in statutory guidance which will not be released for several months. In the meantime, whilst no immediate changes to the operation of NLGPS appear to be required as a result of the consultation being finalised, it may be a good time for the NLGPS Pool and its stakeholders to consider the strategic direction of the Pool.

3.9 Both the Pool and individual funds will need to consider whether any changes to their reporting of pooling activity is required in light of the consultation proposals. The consultation also indicates that DLUHC will monitor fund annual reports whilst preparing further guidance.

4.0 FINANCIAL IMPLICATIONS

4.1 As drafted, the consultation has limited immediate financial implications for MPF (although this is not necessarily the case for other LGPS funds). Membership of the Northern LGPS Investment Pool (NLGPS) has enabled MPF to deliver on the original pooling objectives particularly in reducing fees in higher cost areas of investment such as private markets where investments in GLIL and the Northern Private Equity Pool have delivered significant savings, improved governance and resilience.

4.2 The Joint Committee structure adopted by NLGPS has obviated the need to establish a Financial Conduct Authority (FCA) regulated Pool company which other LGPS pools require. As drafted, the consultation does not affect this arrangement but should this change in the guidance in relation to the categorisation of assets, then substantial costs would be incurred in establishing an FCA regulated entity**.**

5.0 LEGAL IMPLICATIONS

5.1 Following the consultation response, statutory guidance will be issued. The consultation states that government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction (under regulation 8 the LGPS (Management and Investment of Funds) Regulations 2016) is appropriate. Examples of activities which could result in in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The extensive reporting requirements will place additional demands on the Fund at a fund and pool level. These will be assessed and, where quantifiable, included in the subsequent reports to Committee and Board.

7.0 RELEVANT RISKS

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory duties.

7.2 Following the consultation, statutory guidance will be issued. The consultation states that government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction (under regulation 8 the LGPS (Management and Investment of Funds) Regulations 2016) is appropriate. Examples of activities which could result in in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Fund consulted with its pool partner funds and the Pension Board in the preparation of this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report. DLUHC have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 None arising directly from the report. The consultation recognises the potential for pooling to “ensure the LGPS punches its weight on responsible investment, management of climate risks….[by] strengthening existing partnerships”. The NLGPS has a Responsible Investment policy which explicitly addresses environment and climate implications as financially material to the long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

There are none arising directly from this report. The levelling up proposals contained in the consultation may result in greater investment in deprived areas of the UK.

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APPENDICES

Appendix 1 Response to consultation

The PDF file 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

DLUHC Consultation Next Steps on Investment
https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments
DLUHC Response to next steps on investment consultation
https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response

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.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee	**26.09.23** **15.09.22** **22.06.21**

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LGF Pensions Team
Department for Levelling Up, Housing and Communities
2nd Floor
Fry Building
2 Marsham Street
London
SW1P 4DF

By email to : LGPensions@levellingup.gov.uk

2 October 2023

Dear Minister,

CONSULATATION RESPONSE
Local Government Pension Scheme (England and Wales): Next steps on investments

Further to your consultation document published 11 July 2023, please find below the views of the Northern LGPS.

Firstly, we would like to reiterate once again that Northern LGPS is, and has always been, very supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance') and we believe Government and LGPS pension committees deserve great credit in delivering these objectives.

Whilst many challenges remain, the LGPS is arguably in its healthiest funding position in recent memory and employer contribution rates have generally been falling and compare very favourably against other defined benefit schemes. Much of this improvement can be attributed to rises in global interest rates and strong global equity markets. However, the focus on value for money and improved governance, which was brought about by the initial pooling reforms and introduction of the 2015 Guidance, has almost certainly had a positive impact and must remain the focus.

The 2015 Guidance set out a broad framework, which would help all LGPS funds achieve the economies of scale and opportunities available to the larger LGPS funds, such as those that have developed the Northern LGPS, where each of the Funds in the Pool is of significant size in its own right.

In the absence of any evidence led policy we would suggest that the success of a pool in practice is built more on alignment of strategies and underlying approach to investment, rather than of total AUM.

The picture drawn in the consultation is of a quite top-down structure: with the Secretary of State potentially giving directions, pools having ownership of most decisions and partner funds left with quite residual functions. We believe that perspective needs to be altered to a more collaborative model, which has proved successful in practice and demonstrated by the Northern LGPS. In

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this approach, funds are recognised as having a strong and active role in the governance of pools. They are able to hold the pool, its Board and executives to account and there is an important role for member representatives in that too.

Accordingly, we believe that the Department should recognise that there also needs to be consideration of the number and size of partner funds who participate in a pool, as well as the total AUM. We would recommend on our experience that there needs to be a manageable number of funds participating in order to effectively set a common direction and secure the benefits of a harmonised approach. It is accepted that funds may legitimately have their own investment philosophy, then that needs to be respected and progress achieved by consent.

Of course, alignment of investment approaches requires building relationships of trust between partner funds and with the pool - which is why governance is key. Governance works best when partner funds are engaged and pro-active owners of pools and over time develop those relationships of trust.

Since the initial statutory initiatives to introduce pooling (the Investment Regulations and associated 2015 Investment Reform Criteria and Guidance) complex contractual arrangements between authorities for pooling have been established. The reason why different pooling models exist (which the Consultation acknowledges all have their own benefits and merits) is that the Government wisely did not impose a model for pooling upon authorities in 2015. Neither it nor the authorities could be certain of how an appropriate governance structure would evolve.

We note that the Consultation refers generically to "pools" without distinguishing between the models. In general, the Consultation uses the term "pool" to mean the FCA regulated operators of collective investment schemes established by those authorities under shareholder agreements where the pool operator company is under common ownership.

Although we have no criticism of such a model, this is not the legal structure used by all pools and in particular Northern LGPS, as not been efficient and effective for our situation as we have previously explained at length to the last consultation. In particular we received advice that an FCA regulated company would increase Northern LGPS' costs by approximately £10 to £15millionper annum, which we would not be able to recover over the short or medium term or through any efficiencies as a consequence in fact it would add an unnecessary burden.

To promote only one definition of what a "pool" should look like does not acknowledge the alternative model of a joint committee as a recognised governance vehicle under the Local Government Act 1972. The inference in referring only to the former type of "operator" is that no account is taken of the validity of the latter model. In fact, most of the pools which have established their own pool operator companies also have in place a joint committee structure to provide oversight and answerability at a local government level. One of the other features of the Consultation is Government's attempt to define, for the first time, what is and what is not a "pooled asset". By denigrating the status of assets that are (to use the Consultation's terminology) merely "under pool management", as opposed to being co-owned, the Government has both overstated the capacity of the pool operators to compete with third party private sector service providers and under-estimated the cost of replacing current arrangements which are providing all stakeholders with value for money.

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Prior to Government's announcement of its pooling objectives in 2015, the Northern LGPS funds were already well progressed along the collaboration journey. The Pool's direct infrastructure investment vehicle GLIL and the Invest 4 Growth initiative – all predate pooling. Since the 2019 informal consultation was issued we have further expanded GLIL, including outside investment from NEST. The Invest 4 Growth initiative has expanded significantly to include a wide range of investments that meet the Government's more recent Levelling Up agenda. We would argue that Northern LGPS' progress far exceeds Government's realistic expectations.

Whilst the Northern LGPS funds are three of the largest pension funds in the UK, following the release of the 2015 Guidance each of the funds acknowledged that there were still asset classes where we could increase scale and resources and lower costs in order to improve net investment returns. The most compelling case was for private equity and the Northern LGPS established the Northern Private Equity Pool ('NPEP') to make collective private equity investments. To date £2.8 billion of fund commitments have been made. Over the last four years, the Northern LGPS' implementation approach for investment in private equity has become more direct and lower cost with the development of a co-investment programme, generating significant savings.

Throughout the pooling process Northern LGPS has undertaken annual performance and cost benchmarking against global comparators using the CEM Benchmarking service. The most recent report covering the year ending 31 March 2022 indicates that the Northern LGPS has costs, which are materially below the global peer group average (both before and after controlling for differences in asset allocation).

We have been clear with Government throughout this process that the Northern LGPS' mandates for listed assets are already at scale (two pool mandates are in excess of £10bn each) and based on each Fund's current asset allocation, no further material synergies are available.

The November 2015 guidance was clear that it was up to administering authorities to work together to develop pooling arrangements, which would enable each of them to meet the outcome based criteria set by Government.

Whilst we are less concerned with the proposals being consulted upon now compared to the 2019 consultation on draft pooling guidance, we still believe it is imperative not to focus on an overly prescriptive approach to pooling and to not lose sight of the desired outcomes (i.e. improved value for money, governance and supporting UK economic growth).

As DLUHC will know, LGPS funds vary widely in respect of a number of different factors including size, level of internal resources, employer base and liability profile, funding level, governance arrangements and responsible investment beliefs. Given these differences we strongly believe that:

a) administering authorities are best placed to determine via their own governance arrangements which pooling approach works best for their fund;

b) mandating a one-size fits all approach will not deliver the best outcomes and potentially cuts across administering authorities' fiduciary duty to effectively manage their fund.

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We do not feel there is clear evidence of one single approach being better than the rest. There are strong benefits to different approaches that we feel need to be preserved.

In several areas this consultation signals that further detail will be set out in forthcoming guidance and this guidance feels like it will be key for the successful progression of the Government's pooling agenda to the benefit of LGPS funds and their stakeholders. We would be interested to know who will be preparing this guidance and who they will be liaising with during this exercise.

We agree that pooling should be completed as quickly and extensively as possible, where it is achieving clear benefits for funds, however the general feel of these proposals is that they are a collection of measures designed to help pools prosper.

Clearly this should in turn deliver benefits for LGPS funds; but speaking on behalf of a LGPS fund it would have been reassuring to see some references in the consultation to LGPS members, employers and local taxpayers who are ultimately funding the Scheme and will suffer the consequences of any future underperformance.

In the context of the consultation, there is an issue in defining what is meant by "excellent VFM". The long-standing starting point is around net return and risk. It is very surprising that there is no impact assessment of the costs of these proposals. Since the proposals (in particular in relation to governance models and the way that authorities access passive investment strategies) would, if implemented, result in significant disturbance of existing contractual relationships between many of the LGPS authorities and third party service providers, it is very odd that no cost-benefit analysis has been provided.

Currently it seems focused on the needs of the pools who for all intense and purposes are fund managers and therefore have significant conflicts of interests. For example, there is no acknowledgement that some LGPS funds may wish to operate different investment strategies for certain groups of employers that have a lower risk tolerance.

We sincerely hope these significant stakeholders are represented in the process for drafting guidance.

To conclude, we would once again like to reiterate the Northern LGPS' support for the original objectives of the 2015 guidance. We are also supportive of the Government's more recently stated desire to see LGPS assets support the UK and feel we have a very strong track record in this regard.

However, we sincerely hope that Government also listens to our concerns and that any future guidance is drafted in such a way that builds on the strength of progress to date.

The LGPS has performed well, is fully funded, and open to new members. In short, the LGPS should be seen as a success story and as such reform should be carefully considered so as not to undermine its track record of providing pensions to beneficiaries in retirement in a sustainable and affordable manner.

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Consequently, we totally agree with the sentiments expressed recently in the Ministers speech at Room151's Local Authority Treasurers' Investment Forum and Finance Directors' Summit, and in particular: "***local government needs to be squeaky clean about the use of taxpayers' resources, with an endless focus on efficiencies***" and ": '***I need local government to be squeaky clean with money and not experiment'***". We believe this is even more pertinent when dealing with the deferred pay of employees who have a pension promise underwritten by public sector employers and taxpayers.

As a general background point to the Consultation, the R v Secretary of State for Housing, Communities and Local Government [2020] UKSC 16 case ("Palestine") clearly delineated the principles applicable to the ownership of the assets of the LGPS and thereby the limits under statute on central Government intervention in the discharge of those statutory functions by authorities. It confirmed that under current legislation, Government may tell authorities "how" they may invest their funds, but not "what" to invest in (see Lord Wilson's leading judgment and paragraph 31). As Lord Wilson also stated, LGPS assets are "not public money", i.e. they do not belong to Government. This is a vital point, especially in relation to the levelling up and private equity proposals that the Consultation appears to ignore.

The other significant point about Palestine that cannot be ignored is that the reason the Government lost in the Supreme Court was that it had attempted to use its statutory powers for a purpose for which they were not given. In particular, the regulatory footing on which the levelling up programme is based is concerned not with delivering pensions to LGPS members but with wider economic policy.

In order therefore for Government to "require funds to have a plan to invest up to 5% of assets to support levelling up", Government would have to change the Investment Regulations rather than implementing that aim through statutory guidance. Changing those regulations to impose an asset allocation at any level (whether minimum or maximum) would mean undoing the regulatory reforms that the Government committed to in 2015 and would reverse the position under the current Investment Regulations where prudential principles apply to authorities in their role as fiduciaries (which is accepted by the Government in paragraph 65).

We have a credible history and are very open to investing in place-based initiatives where particular projects can be demonstrated to be consistent with each of the fund's fiduciary duty and appetite for risk, we have previously commented that LGPS funds cannot be required to invest simply to support Government policy or provide loans on favourable terms for projects supported by Government..

We look forward to receiving details of further developments.

Please do not hesitate to contact us in the meantime if you require any clarification or would like to discuss any aspect of this response.

Yours sincerely,

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Gerald P Cooney

Cllr Gerald P Cooney
Chair Northern LGPS
Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

In establishing the 8 LGPS investment pools, LGPS funds have taken account of the criteria set out by Government in the 2015 pooling consultation and developed pool structures that accord with their investment philosophies and beliefs. Considerable progress has been made since 2015 which is recognised in this consultation.

Since the concept of asset pooling was introduced, all LGPS funds in England and Wales have had to focus on whether their investment management arrangements are providing value for money and whether their fund would benefit from further collaboration.

For the larger LGPS funds, that were at scale in public markets, were generally already well resourced and capable of investing directly in private markets, we would argue that it is the focus on value for money and collaboration by LGPS fund committees that has brought about the benefits and not the application of any specific pooling model. Government have acknowledged in this consultation (paragraph 31) that each pooling model has its own benefits.

In addition, one of the benefits of the pooling initiative in general terms is that it effectively forced commercial asset managers to treat LGPS funds and pools as equivalent and that brought down fees for everyone, whether they had started to transition into a pool or not at that time and largely irrespective of pooling model.

We agree that pooling should be completed as quickly and extensively as possible, where it's achieving clear benefits for funds. However, in the case of the Northern LGPS funds, a prescriptive approach to pooling could have the effect of increasing costs without a commensurate level of financial benefit. We support Government's ambition for greater collaboration and joint working between pools and the potential to grow in-house investment management. Indeed, recent research by CEM identifies that cost savings are driven more by implementation model than scale although both have a part to play.

Whilst we acknowledge that increased scale is likely to reduce costs up to a point (which will vary by asset class), we are doubtful that the benefits of pool merger would compensate for the costs and disruption that would be involved in the merger process. We are also of the view that, as the number of investors/shareholders in a pool increases (as it would following a merger), it becomes increasingly difficult for an individual investor/shareholder to hold the pool to account. We therefore see pools being encouraged to work together as likely to generate better outcomes

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than pool merger. It's interesting to note that some smaller pools have achieved excellent results from pooling, so absolute size is not a guarantee of better outcomes.

We are also concerned by some of the language in the consultation, in particular paragraph 12. Whilst pooling models differ, it is clear that the pools exist solely to invest assets on behalf of, and under instruction from, the LGPS funds. References in the consultation to pools 'securing' the assets of the partner funds seem to misunderstand the purpose and role of pools. Arguably, the concept of a pool 'owning' a fund's assets implies sequestration of assets and cuts across a fund's fiduciary duty.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Progress to date suggests that, in the main, LGPS funds have been transitioning assets to pools as and when pools implement asset mandates that fulfil LGPS funds' requirements. In this context, a deadline could be a blunt instrument and result in suboptimal investment decisions being implemented. As recognised in the draft guidance (section 19), it is important, therefore, that any deadline should recognise this and the need for pools to provide asset strategies that accord with LGPS funds' investment requirements. There is a fundamental fiduciary point, which each authority would need to satisfy itself on before making any required transition.

Furthermore, if pools demonstrate good performance in terms of costs and investment returns, administering authorities will not need any requirement to transfer assets. Not to take advantage of pools outperforming would be open to challenge by those the administering authority represents.

In addition, the process for establishing an evidence-based date for further and full transitioning of assets may benefit from an independent assessment of the pooling process to date, covering issues around the process itself, performance data, and analysis of the varying investment strategies and their performance.

While the focus of the consultation is on further pooling, it is also important at this stage that the department consider what happens if a pool is not performing as might be hoped. Developing an accepted approach that enables funds to take appropriate action to protect their assets would appear prudent and could benefit both funds and pools alike. Such an approach would require a comprehensive monitoring and reporting framework which includes hard factual data that can be measured against other investment managers, model funds and index return on a quarterly basis (which forms part of later questions). The approach would also need to consider ways to protect asset owners whilst allowing time for a pool to respond and address the performance issues. As we are dealing with publicly held funds and to address the issues above, there should be bias towards public reporting in favour of treating issues as confidential.

The target for these measures is likely to be those funds that Government sees as unnecessarily keeping assets outside of their pools. In reality, assets may be held outside for sensible reasons. For example, it could be uneconomic for the pool to offer a solution that meets funds' specific requirements. We believe flexibility is needed here, which could improve pooling outcomes. Further guidance from Government on the degree of flexibility funds will have, and

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on the obligations of pools to offer solutions whatever the cost, would be helpful.

Also relating to paragraph 19, we think the requirement for "a detailed rationale for each asset remaining outside the pool" should instead refer to an "asset class" or "asset mandate". The current wording implies that a rationale would be required for each security or legacy private market holding, which would be a very time consuming and expensive exercise.

The commentary in paragraph 9 of the Consultation which seeks to differentiate between "pooled assets" and "assets under pool management" raises an issue not simply in relation to listed assets (and therefore to the timetable for transition) but also creates a false dichotomy, which needs to be addressed. Paragraphs 9 to 12 and paragraph 39 suggest that the Government does not regard assets as "pooled" if they are merely "assets under pool management". The corollary of this is that "pooled" actually means "co-owned" as a legal matter.

Assets held under pool management would include in particular the passively managed listed assets across the majority of the pools which are legally owned under insurance contracts by the providers of those contracts. By excluding such passively managed assets, the Government has created an artificial rationale for driving further pooling with the suggestion that internal management of passively managed assets could be achieved at a lower cost (see paragraph 11). The economic evidence would suggest the contrary. It is universally recognised that the most efficient managers of passive portfolios do so because of their very scale, which enables them to replicate the relevant index with the most accuracy and thus reduce the tracking error which would otherwise be inherent in a sub-scale portfolio.

Leaving aside the fact that it is not the Government's place to determine whether assets should be actively or passively managed the choice of externally managed passive portfolios remains a rational and empirically justifiable solution for all authorities who have chosen that path. We therefore strongly disagree with this aspect of the recommendations in this part of the Consultation document.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

No.

We broadly support the characteristics described in the consultation as key to progress, however we strongly believe that Government needs to allow flexibility for funds and pools to implement arrangements that work for each LGPS fund. A one-size fits all approach will not deliver the best outcomes and potentially cuts across administering authorities' fiduciary duty to effectively manage their fund.

Government wisely did not mandate a model for pooling in 2015. That principle still holds good today and it would be inappropriate to promote a single model of pooling which would inevitably require a preference to be expressed for a particular structure. The characteristics which the Consultation seems to promote as being essential to a desired or favoured model of pooling

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appear to lean strongly towards a corporate vehicle which is owned by the authorities (cf. "pools should operate as a single entity" paragraph 31). Government should bear in mind that the costs of establishment of the owned pool operating companies significantly outweigh the costs incurred by pools which have not established a corporate entity, but have instead procured services across the authorities within their pools.

We also have concerns regarding pools being encouraged to advise funds regarding investment decisions and strategies (see also our response to Q13). Combining strategy advice and implementation or, in other words, replicating the traditional fiduciary manager model, is known to create conflicts of interest. Whilst it is unlikely to be an issue in practice for the funds in the Northern LGPS Pool, where each of the funds has significant internal capacity and capability to advise on investment decisions and strategies, there is a risk that pools could advise funds to do what is expedient for the pool rather than what may be in each funds' best interests. This could be especially problematic if guidance is clear that funds cannot invest directly in other pools (see our response to Q8) and there are few, if any, assets classes exempt from pooling.

For example, pools may be incentivised to develop easier-to-run, simplified solutions that do not fully reflect each member funds' specific needs. Similarly, assets may be directed towards solutions where the pool is trying to build scale, rather than the optimal strategies for each member fund. Member funds would not fully benefit from the protections recommended by the CMA in its 2019 review. The proposal would also increase concentration risk by increasing the influence of pools on ultimate investment outcomes.

As mentioned earlier, we also have doubts regarding the ability of funds to make changes to their pool if they are not satisfied with how it is operating (which could include the advice it is providing to funds). An individual fund may well be able to exert influence in a pool with a small number of partners, but in a pool with a large number of partners we think it would be very difficult for any individual fund to make its voice heard.

In view of the potential conflicts of interest, we believe it should be made clear that pools should not be the sole source of advice for funds regarding investment decisions and, in particular, investment strategy.

Attempting to revise the existing statutory guidance, which contains good and measured approaches to governance, should be approached with care, especially in a context where there is no overriding legal reason to promote one model above others.

The Consultation acknowledges in paragraph 29 that most of the investment return achieved by any institutional investor comes from asset allocation, not manager selection. It also acknowledges that setting investment strategy and asset allocation is "a central responsibility for administering authorities" (paragraph 29). There therefore seems to be a contradiction between the model of increased delegation to pool operator companies promoted in paragraph 31 and this statement.

The statement in paragraph 25 that "the pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the

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conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey", needs to be scrutinised closely given the Consultation no detailed cost-benefit analysis of its proposals.

Having "conditions in place" is not the same as evidencing the delivery of enhanced net performance.

Another disadvantage to the promotion of the fiduciary management model in a built pool where the authorities own the operator is the scope for conflicts of interest.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

This would be helpful. Elected members will need to acquire and maintain a broad understanding of the LGPS, where to seek expert advice and how to hold pools and advisors to account. LGPS administration is the responsibility of local councils and is managed through committees or panels which bring together elected members, fund officers and their advisors. Critical to the success of the arrangements are the skills and knowledge the members and their advisors bring to the process. All parties need specific skills and knowledge. LGPS members are not expected to be technical experts, but to have an understanding of how to manage advisors and investment managers.

It is important that training is focussed on the right areas. Investment training needs to ensure trustees can ask sensible questions of the pool, their investment consultant, and other stakeholders.

The Good Governance in the LGPS review opines helpfully on this area noting that respondents believed that requirements for Committee should be on a par with Local Pension Boards. We would hope that recommendations from the Scheme Advisory Board in relation to the Good Governance review, which include this important area of training and development, are put in place.

It is important that through the pooling process, including proposals within the consultation, that the role of individual funds are maintained, and that involvement of members and officers are encouraged.

To improve performance and deliver potential benefits of scale, issues around complexity of asset manager structures is an important area for consideration. This will help with costs, clarity on roles and tasks and responsibilities at pool level. It will also support transparency around operations and decision making. LGPS funds are reliant on lay trustees who have served pension funds well. For lay trustees to undertake their tasks they need the support of officers. Funds should ensure adequate resource for supporting trustees in an increasingly complex investment environment.
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Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a

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consistent benchmark, and if so how should this requirement operate?

We support the reporting proposals. Northern LGPS funds have reported their assets on this basis for a number of years in their annual reports. The area of greatest challenge is achieving a consensus on the reporting of net returns against a consistent set of benchmark indices. There are many hurdles, some of the main ones being:

1. Reporting net returns does not provide context on the risk taken.
2. Globally, there are more benchmarks than assets which makes benchmark selection difficult.
3. There are a number of valid approaches to the benchmarking of unlisted assets.
4. Benchmark providers charge for the provision of benchmark data so any proposal should not have the effect of LGPS funds incurring additional costs.

That being said, the Northern LGPS Joint Committee receives quarterly reports of the combined performance of the partner funds by asset class. This has involved some compromise in terms of benchmarks but is achievable. Should reporting pension funds feel the standard performance benchmark was inappropriate, this could be addressed in the narrative of their report.

This requirement could be seen as analogous to the current arrangements for the calculation of funding position against standard actuarial assumptions.

Funds would be able to operationalise this requirement through support of third parties. For example, PIRC delivers a Local Authority Pension Performance Analytics (LAPPA) service, which measures the performance of the 63 participating LGPS funds against the aggregate return of the group. Funds can then review the impact of their strategy on both the return delivered and risk profile. The funds can also review asset class performance against their peers. This is done over the latest year and longer term with total asset and peer group comparators available for the last 35 years. CEM Benchmarking could also be a useful operating partner, having devoted significant resource to considering the issue of reporting performance on a consistent basis. For example, they have developed a methodology for standardising performance measurement of Private Equity.

However, we do take issue with the inference of paragraph 39, which appears to be a "back door" way of influencing the governance choices which have been made to date by authorities about the structure which is right for them and for their funds (but which may not be right for other authorities) would be inappropriate, especially under the guise of apparently improved reporting.

Question 6: Do you agree with the proposals for the Scheme Annual Report?

We agree with the reporting requirements. With the variety of reports that LGPS funds are required to make, we would support a new single standard set of data designed in such a way that it can be used by funds to fulfil all their different current obligations.

GMPF has for many years disaggregated its pooled investment vehicles disclosed within its Net Asset Statement into the underlying ‘traditional’ asset classes. This has enabled the Fund to

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disclose a more meaningful 'portfolio distribution' chart within its Annual Report. We appreciate that this issue has been exacerbated by pooling and endorse the proposed approach.

The proposals would provide transparency around asset allocation and performance. However, to do so it should be meaningful to the interested parties and be a key element in holding all those involved in the investment process to account for their performance.

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

The proposed definition provides helpful clarity and is suitably broad based and inclusive. We would suggest that the definition is kept under review as this area of investing evolves, to ensure that it remains relevant.

It is important to note that LGPS funds and pools are already contributing to the UK economy and local economies across the country. This investment is sometimes underplayed and the barriers to supporting further investment overlooked. Such barriers include the lack of investable propositions to support local growth and reduce spatial inequalities and is an area where government investment would be needed to crowd in private finance. The contribution being made comes not only through illiquid assets but includes investment in the UK through the public markets. Many of the listed companies the LGPS is invested in will be supporting aspects of the 12 levelling up missions, including investment in training and R&D and providing jobs to support improved living standards.

A recent ONS[1] study suggests that public sector pensions' equity holdings are now more than those of the whole UK private DB and DC schemes combined. It is unclear in the consultation how such major investments are accounted for and whether the preference here is for investment in illiquid assets over investment in, for example, the FTSE and FTSE companies (something which other parts of the Edinburgh reforms are seeking to bring about). The 12 missions are quite broad and open to interpretation - pride in place, living standards, wellbeing, crime and local leadership. Presumably any investment in an area will have some impact on jobs and growth and therefore living standards. Equally it is not clear what is meant by local. Presumably any investment within the UK, even with complex supply chains, will support a local economy. It is also not apparent how investing anywhere in the UK would narrow spatial disparities and could well widen them. As such, any direct investment located in the UK could be described as supporting levelling up.

As some of the most supportive funds to local place based investing, we have previously commented that LGPS funds cannot invest simply to support Government policy or provide loans on favourable terms for projects supported by Government.

We are very open to investing in place-based initiatives where particular projects can be demonstrated to be consistent with the fund's fiduciary duty and appetite for risk. We have a

[1] ONS, Funded occupational pension schemes in the UK, June 2023

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deep understanding about how our local economy works, but the key barriers are scale and supply of opportunities: we would like to see a deeper consideration by Government of what can be done collectively to address those.

We note that the consultation says that the LGPS "can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions". While LGPS funds should be consulted on what the pipeline is for and who the potential customers of that pipeline are, we do not believe that it would be for the LGPS to construct it. That is clearly a job for a Central Government agency (or a body nominated to act on its behalf).

We believe that Central Government absolutely needs to take a more active role in this space and could do so by setting out a clearer and more activist industrial strategy, or make a comparable offer to support transition to a net zero world such as those offered in other jurisdictions (like the significant funding commitments announced by the US and EU).

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Collaboration between and within LGPS pools and funds is already common particularly in private markets and delivers fee savings by, for example, collective negotiation with an external investment manager to provide a lower fee LGPS share class which is available to all LGPS investors. Collaboration brings benefits of scale, resource and helps reduce the potential for conflicts of interest in relation to local investments.

We agree that funds should be able to invest in another pool's investment vehicle. The requirement for this to be done through their own pool is almost certain to cause funds to incur an additional layer of fees. This is inimical to the original Pooling intention which was to reduce costs, move away from fund of funds and deliver fee savings. Taking account of proposals in question 3, consideration should be given to ways in which this can be achieved most cost effectively. It is difficult to see why there should be an objection to a pension fund investing directly in another pool's investment vehicle provided it has first consulted with its pool company. The final decision should lie with the pension fund.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

We have no issue with authorities stating what their policy on levelling up is if the proposal can be legitimately included within statutory guidance (noting our comments on the implications of the Palestine case). However, we strongly reject the proposal that funds should be directed in revised Regulations to invest up to 5% of their assets in local investments.

That said Northern LGPS already exceeds the proposed 5% invested in levelling up assets. Northern LGPS funds have invested significant amounts in levelling up investments because it is consistent with our investment strategies, and we do not see this changing in the foreseeable future. Notwithstanding this, the recognition in the consultation of fiduciary duty as underpinning any investment decision is important and the appropriateness of an allocation to levelling up assets will be a decision for each LGPS fund.

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In our experience, most levelling up investments are through private market structures/vehicles. Hence, when calculations are undertaken, undrawn commitments and contingent liabilities as well as capital at work, are important considerations and should be included in the reporting of progress in a levelling up plan.

Overall, this requirement seems fundamental to ensuring greater public scrutiny of such plans and a common reporting format would seem to be required. That common format would need to include clear definitions around levelling up and locality to ensure comparability.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Yes. Although this will be an additional demand on fund resources, in our opinion, a considerable amount of 'levelling up' investment has occurred within the LGPS which is not necessarily recognised and this could be improved by reporting the extent to which levelling up investment is taking place.

The Northern LGPS continues to strive to implement best practice. In this context, GMPF, as one of the Northern LGPS funds, recently undertook a first of its kind exercise, by working with the Good Economy, a respected Impact Advisor, to measure the outputs of its Impact and Local Investments. You can find the report here: Place-Based-Impact-of-GMPF-Local-Investment-Portfolios-Sept-2023.pdf We would be delighted to share our findings in order to help progress our mutual aims in this area.

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

No - Investment in private equity should be based on the needs of the specific fund rather than a one-size-fits-all target or ambition. Authorities must be free to discharge their fiduciary duties without being directed by Government (as explained in Palestine Case).

Currently, Northern LGPS has around 8% of its assets in a broadly diversified portfolio of private equity investments. This allocation has arisen from Northern LGPS' assessment of opportunities in private markets as part of the underlying Funds' strategic allocation design, based on appetite for risk and return. This is typically best practice across private and public pension funds. Strategic allocations are reviewed periodically, and for some LGPS funds, investments in these assets will make more sense than for others. Due to this, and the fact that suggesting a specific target allocation will impinge upon pension funds' fiduciary duty, Northern LGPS does not agree that an 'ambition' target should be set. Indeed, based on our experience, we suggest the emphasis should be on growth capital in private markets as a whole, instead of private equity alone. Having a focus on 'private capital' allows pension funds to build private market portfolios which suit their own circumstances, rather than limiting options to a more narrowly defined and therefore potentially crowded part of the market with greater volatility.

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Private equity is inherently more risky than quoted equity and is also more illiquid. It only makes sense for funds to allocate to the area if they are confident that the risk premium will be delivered. Being forced buyers of potentially low-quality investments is not something trustees should be comfortable doing within their fiduciary duty.

To stimulate interest in UK-centric venture and growth equity, we would encourage the government to consider ways in which potential opportunities in growth equity can be made more appealing to investors by incentives such as the provision of first-loss capital or grant funding to encourage further investment in this area.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

We agree that the British Business Bank is well placed to collaborate with the LGPS. BBB could potentially provide the incentives to invest in UK-centric growth and venture investments that we set out in our response to Question 11.

The Northern LGPS has invested alongside the BBB in the past, however, we do not believe that BBB should be an exclusive or mandated partner. Consequently, we see no reason to prevent authorities or pool operators from engaging with the BBB if they wish to do so as we have done. We therefore do not understand the reference in paragraph 90 that suggests that there are barriers in legislation that need to be overcome.

Where funds and pools, such as Northern LGPS, have already developed capacity and capability to invest in these areas, a collaboration with the BBB that introduced an unnecessary level of additional fees should be avoided.

We would be happy to work with the BBB to develop suitable proposals.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

With regard to the consultation's reference to pools providing investment advice to LGPS funds, it is for LGPS funds to determine from whom they receive investment advice. However, from a governance perspective, we would argue that independent advice, scrutiny and oversight of the investment decisions taken by the pool is essential. In view of the proposals in Question 3, it would seem appropriate that LGPS pool companies should also be accountable against objectives.

Whilst it is unlikely to be an issue in practice for the Northern LGPS Pool and its partner funds, our instincts are that there may well be a tendency for pools to advise funds to make investment strategy changes, which are expedient for the pool rather than what may be in the funds' best interests. This could be especially problematic if the proposed statutory guidance is very clear that funds cannot invest directly in other pools and there are few, if any, exemptions from pooling (see response to Q3 above).

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Once again we also question the ability of funds to make changes to their pool if they do not support how it is operating (including the advice it is providing to funds), particularly if there are a significant number of partner funds.

Whilst we note the summary of the implications of the CMA Order set out in the consultation document and do not seek to question DLUHC's interpretation of this, it feels back-to-front that pools are not subject to the order, but investment consultants are in scope. As noted in the consultation document, the primary purpose of the order being brought in was to reduce conflicts of interest in the fiduciary management industry – in our opinion the pools (who under these proposals are funds' only available investment manager) appear to closely resemble fiduciary managers and seem to have much more scope for potential conflict in their advice than the LGPS investment consultants do, particularly if pools are advising their own investors on strategy!

Accordingly, we see no justification for continuing the exemption for pool operating companies. There is an important difference between permitting authorities to avoid the need for retendering fiduciary management contracts (if that is what they have entered into with wholly owned pool operators) and the enhanced governance goal of setting investment objectives and measuring consultants against how they deliver on those objectives. The case is all the stronger in a public sector scheme like the LGPS and where the pool operators are only regulated by the Financial Conduct Authority and not directly answerable to Government.

We support the proposal not to make high-level commentary by actuaries (and similar) in the scope of the Regulations.

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

The proposed amendment will be helpful in eliminating any ambiguity.

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

We cannot comment as we have not seen any equality impact assessment on the consultation.

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WIRRAL

LOCAL PENSION BOARD

27 MARCH 2024

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

REPORT SUMMARY

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

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the minutes.

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 Pension Board has requested that minutes of the Working Parties be reported to it.

3.0 BACKGROUND INFORMATION

3.1 The Investment Monitoring and Governance & Risk Working Parties (IMWP & GRWP) enable Committee 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. The minutes provide Board members with assurance that investment matters receive due consideration by Pensions 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 administration functions.

5.0 LEGAL IMPLICATIONS

5.1 The Board must assist the Scheme Manager with the primary core function in securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.

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 the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties.

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

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.3 (b) of its Terms of Reference:

(b) Monitor performance of administration, governance and investments against key performance targets and indicators.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all Working Party meetings are brought to the subsequent Pensions Committee and Local Pension Board.	

Attendees

Name	Initials	Organisation
Councillor Julie McManus (Chair)	CP	WBC
Councillor Ruth Molyneux	RM	WBC
Councillor Brian Kenny	BK	WBC
Councillor Pat Cleary	PC	WBC
Councillor Chris Carubia	CC	WBC
John Raisin	JR	Pension Board
Donna Ridland	DR	Pension Board
Roger Bannister	RB	Unison Member Rep
Jill Davys	JD	Redington
Edina Molnar	EM	Redington
Paul Watson	PWa	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AA	MPF
Emma Littler	EL	MPF
Greg Campbell	GC	MPF
Elizabeth Breen	EB	MPF
Ciaran Sharp	CS	MPF
Daniel Proudfoot	DP	MPF
Neil Gill	NG	MPF
Dragos Serbanica	DS	MPF

1. Apologies

Councillor Ann Ainsworth
Councillor Peter Norris

2. Minutes of IMWP 6th September 2023

Noted, no amendments.

3. Market Commentary – Rohan Worrall (RW)

In Q3 2023, global equity markets faced headwinds overall, with the notable exception of resilience in UK equities. While UK inflation saw a decrease, core inflation in the UK remains higher than in other countries. Central banks continue to grapple with the challenge of meeting inflation targets, suggesting high-interest rates will persist in the near future.

Year to date, major equity markets have seen growth, but over the last quarter have witnessed a period of relative weakness. Notably, Japan emerged as a top performer. Value stocks proved more resilient than growth stocks over the quarter. Medium and longer-term bond yields rose over the quarter, due to the expectation of interest rates remaining higher for longer.

Sterling has exhibited strength over a twelve-month period but faced weakness over the last quarter. Energy prices rose in Q3 as gas prices rebounded. Precious metals prices generally fell, while industrial metal prices rose.

Looking ahead, central banks maintain a focus on high-interest rates as a strategy to curb inflation. The markets are divided on the potential for a serious recession, with indications pointing towards a slowdown in growth rather than a severe downturn.

Brian Kenny (BK) sought clarification on the distinction between CPI and core CPI. RW clarified that core inflation (CPI) is the change in the costs of goods and services without the inclusion of the food and energy sectors, which are often more volatile.

Pat Cleary (PC) inquired about the reluctance of central banks to decrease interest rates despite falling inflation. RW explained that central banks are cautious, fearing a potential resurgence of inflation if rates are lowered too quickly.

4. MPF Investment Update – Peter Wallach (PW)

The monitoring report reveals a higher number of mandates flagged as red, which is sub optimal, yet not all flagged mandates raise concerns. Notably, the performance of Internal UK equities has shown weakness in the past three years but surpasses the benchmark over the last five years. A similar trend is observed in the Blackrock UK equity external mandate. Significant concerns tend to arise when a manager diverges from their investment philosophy or there are departures of key individuals. While a few mandate changes are in the pipeline, only critical changes will be implemented will occur ahead of the completion of Redington's review.

Specifically, the Unigestion and Newton mandates are currently being flagged as concerns and are, for the time being, utilised as a source of funds.

RW inquired about the ongoing review of the Fund's allocation to hedge funds. PW confirmed that the allocation is indeed included in the areas of the fund to be reviewed.

5. Strategic Asset Allocation – Jill Davys (JD)

JD presented and covered the key changes to the Strategic Asset Allocation (SAA). The revised proposal was to retain a higher exposure to equities and reduce the amount of additional capital to be allocated to fixed income. Broader ranges within the Investment Strategy Statement (ISS) were suggested to provide flexibility, considering market dynamics, and acknowledging the gradual implementation of the new strategy, especially in private markets.

Paul Watson (PWa) suggested that now would be an opportune moment to reassess underperforming mandates amid these ongoing changes.

JD continued and acknowledged the likely persistence of amber traffic lights in the Pension Risk Management Framework (PRMF), with a proposed annual review to assess progress towards the new Strategic Asset Allocation (SAA) and its impact on key metrics.

The need for realistic timeframes in adjusting the private markets allocation was emphasised, recognising the slower pace due to the illiquid nature of these assets.

PC asked about the local investment process, to which JD explained it would fall under the alternatives category. JD also expressed the view that organising an impact property training session for councillors could be valuable. PW highlighted the potential of this initiative to address pressing social and environmental concerns, such as housing shortages.

6. Responsible Investment Policy – Jill Davys (JD)

JD introduced a draft responsible investment policy for the Fund, aligning it with the Fund's core beliefs and engagement principles. Emphasising the inclusion of Environmental, Social, and Governance (ESG) factors was highlighted as pivotal in meeting fiduciary responsibilities. The Fund presently prioritises engagement as opposed to divestment. It was noted that divestment was available as an option in the draft escalation policy. The stakeholder survey revealed that climate change and biodiversity, human rights, and corporate governance rank as the most significant factors in consideration.

BK sought additional details on the key issues slide. JD responded that climate change and biodiversity were central to the survey and underscored their crucial role in investment decision-making.

Chris Carubia (CC) asked whether the Fund lags behind others in achieving targets for implementing key ESG themes compared to other funds. JD clarified that the Fund stands out as a strong proponent of stewardship and engagement, ranking amongst the best in its category in terms of activity. CC suggested enhanced collaboration between Redington, and the Fund could facilitate further progress. RW added that, while a couple of pools might be ahead, the Fund generally holds a favourable position in implementing key ESG themes. PC asked about the possibility of providing evidence to benchmark against other funds.

7. Net Zero Target Setting – Edina Molinar (EM)

EM presented and explained that the purpose of the paper was to provide recommendations for the Committee's consideration in establishing a short-term interim net-zero target. Highlighting the Fund is actively talking steps toward achieving net-zero goals, EM acknowledged the potential for further progress.

PWa asked about the timeline for target reviews. EM clarified that they are currently at the initial phase, with targets set to be assessed annually thereafter. The ongoing evaluation will enable continual monitoring of progress, facilitating adjustments to targets as necessary.

EM presented the three key components of the investor climate objectives, emphasising their crucial role in achieving the Fund's climate goals and managing climate risks.

PWa asked if the components will cover companies using carbon credits measurements. EM explained that the targets would encompass both measurements and address companies' alignment strategies and Net Zero trajectory, with Redington also evaluating fund investments in climate solutions.

PC raised concerns about the 2050 timeline, noting 2030 is just six years away. While acknowledging the potential distraction of long-term targets, PC appreciated the inclusion of a shorter-term goal. PC sought insights into the Fund's plan to achieve these targets and its overall activity.

OT outlined the approach, highlighting a re-evaluation of external mandates. Additionally, collaboration with FTSE Russell and LGPS Central demonstrates a concerted effort to align with industry standards. The importance of tailoring actions for each portfolio was emphasised, recognising the unique characteristics and objectives of individual investment profiles.

PW added that achieving targets will involve both asset allocation changes as well as setting climate goals for managers, referencing the 2019 baseline and the non-linear nature of the action plan.

EM underscored the impact of engagement as an assessment tool for target actions.

RW asked about the receptiveness of managers to conversation on this topic. EM responded positively, acknowledging sector-specific challenges but noting a positive shift in attitudes. Collaborative engagement and the ongoing debate around engagement versus divestment were highlighted.

PW sought Redington's perspective on aligned benchmarks. EM explained that emissions monitoring may not capture asset transition adequately, emphasising the importance of assessing the trajectory of emissions alignment with benchmarks.

PWa brought up the discussion on avoided emissions and its role in the paper's conclusions. EM acknowledged that it is a work in progress for further scopes, with future assessments to be conducted by the Fund, recognising the complexity of capturing CO_2 per ton of energy produced sustainably.

OT discussed the focus on reducing emissions without resorting to offsetting. CC inquired about the integration of this approach into asset management and its influence on returns. EM affirmed that it stems from implementing guidelines within investment mandates. As the climate evolves, companies assessed through this lens demonstrate improved performance. Managers are now tasked with excluding or adjusting sectors to align with risk considerations. Clear communication and alignment of relationships and expectations with managers are crucial to meet the Fund's objectives.

CC voiced concerns about returns and fiduciary duty, to which EM responded by highlighting actions taken in sustainable funds, excluding energy companies which had been detrimental to performance in the short term. The impact of climate targets on investment returns remains uncertain due to lack of a long-term perspective for investors. Monitoring returns and climate impact is crucial for the fund.

OT emphasised the capability of asset management firms in addressing these concerns, citing the importance of governance strategy and clear client expectations. Acknowledging it as a core client expectation, OT stressed the industry's progress and the need for professional asset managers to seamlessly integrate these expectations while delivering returns.

EM presented on decarbonisation, proposing an emissions intensity-based interim target over an absolute emissions target for the Fund, with a focus on both scope 1 and 2, and acknowledging challenges with scope 3 emissions data.

RW questioned the impact of financed emissions in investee companies, particularly emphasising the significant role of banking-financed emissions under scope 3. OT stressed the importance of engagement on these issues, highlighting progress in disclosure and transparency by banks. However, the role of debt and capital markets remains unclear due to limited disclosure.

EM affirmed considering this approach, noting the bulk of scope 3 emissions lies in the value chain, which will be included in the assessment as disclosure improves, although currently, this data is only estimated.

EM discussed regulators' recommendations on scope 3 measurement, emphasising the phased incorporation into target setting as data accuracy improves. While ISSB scope 3 requirements for UK companies are encouraged, the acknowledged challenge is recognised.

RW asked about the purpose of monitoring subset data if it is not utilised in setting targets. EM explained that monitoring data quality is crucial for enhancing reliability over time. RW highlighted the potential for informed decision-making with the comprehensive scale of scope 3. EM acknowledged the difficulty of selling assets based on estimated data.

EM discussed the merits and drawbacks of incorporating scope 3 in measurements, advising a focus on scope 1 and 2 due to its current relevance. Suggesting the use of 2019 as a baseline, EM highlighted the accessibility of data from S&P.

PWa asked about the assessment's coverage, questioning whether it spans the entire portfolio or only measurable aspects, EM clarified that it encompasses equities and fixed income, constituting 50% of the Fund.

PC acknowledged the ambitious 2030 target for the Fund and highlighted the need to consider the current behaviours implications for achieving these goals. Seeking guidance on overseeing current managers, PC asked how to prompt action. EM outlined engagement, monitoring, and investment decision-making as the methods, emphasising that actions would align with the set targets.

PWa inquired about the potential impact of shifting asset allocation to the US on emissions. EM affirmed its positive influence on US equities, particularly in technology stocks, though not applicable to bonds.

JD discussed the ongoing strategic asset allocation shift from equities to fixed income, emphasising the importance of exploring scope 3 exposure in new asset classes. RW noted the increasing complexity of decision-making in this regard, and JD highlighted the heightened pressure on managers to align with Paris Agreement goals.

PC reassured that assuming financial returns would suffer is unwarranted, emphasising that de-risking is beneficial for the Fund's long-term prospects.

John Raisin (JR) acknowledged the value of the Redington paper on understanding scope 3.

PW encouraged the Committee to assess risks across all scopes, highlighting the importance of considering the ability to meet pension obligations. Cautioning against exclusions in scope 1 and 2 before having definitive scope 3 data as scope 3 data could fundamentally change a company's carbon footprint.

RW proposed evaluating the Fund's performance against internally set targets rather than just comparing with peers.

CC expressed reservations about divestment, questioning its impact, and inquired about the effectiveness of the 6% reduction. EM highlighted challenges in measuring financed emissions, making it unclear.

OT clarified the approach of monitoring decarbonisation on an annualised basis, aiming to establish a consistent rate and signal expectations to the market. Continuous monitoring is crucial for improvement and achieving targets.

EM delved into the alignment target, suggesting the Fund maintains alignment with the Paris Agreement goals on an aggregate level. The proposal aims to enhance the percentage of assets within scope aligned with 1.5°C and 1.5 to 2 °C trajectories. The ultimate goal is for all Fund assets to align with a trajectory below 2 °C by 2030.

EM concluded by addressing climate solutions. Redington advised against setting a quantitative target currently, recommending the Committee establishes a high-level goal to boost investments in climate solutions and monitors methodological developments.

8. PIRC/LAPFF Report – Owen Thorne (OT)

OT affirmed that a forthcoming RIWP paper will be presented to the Committee shortly. The RIWP will be tasked with executing policy and addressing stewardship-related issues, encompassing an evaluation of impact investing and sustainable outcomes. Conversely, the IMWP will direct its attention to strategic asset allocation.

PC sought confirmation that a report establishing the RIWP will be brought to the Committee in December.

LAPFF quarterly engagement report
https://lapfforum.org/wp-content/uploads/2023/10/LAPFF-Q3-2023-QER.pdf

Northern LGPS quarterly stewardship report
https://northernlgps.org/assets/pdf/stewardq3_2023.pdf

LOCAL PENSION BOARD

27 MARCH 2023

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

REPORT SUMMARY

This report provides Board members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern Local Government Pensions Scheme (LGPS). Minutes of the previous Northern LGPS Joint Committee meeting are appended for noting.

RECOMMENDATION/S

The Local Pension Board be recommended to note the report and 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 Board 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 and, by extension, the Local Pension Board.

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 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.

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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 Pension Board in accordance with Section 13.2 (b) of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Northern LGPS update is a standing agenda item on the Local Pension Board.	

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

1 February 2024

Commenced: 11:00am **Terminated: 12.00pm**

Present:	**Cllr Gerald P Cooney (Chair)**	**Chair, Greater Manchester Pension Fund**
	Councillor Jacqueline North	**Vice Chair, Greater Manchester Pension Fund**
	Councillor Andrew Thornton	**Chair, West Yorkshire Pension Fund**
	Councillor Julie McManus	**Chair, Merseyside Pension Fund (part meeting)**
	Councillor Cherry Povall	**Vice Chair, Merseyside Pension Fund (Part meeting)**
	Elizabeth Bailey	**UNISON**
	Ken Drury	**UNITE**
	Alan Flatley	**GMB**
In attendance	**Sandra Stewart**	**Director of Pensions, GMPF**
	Peter Wallach	**Director of Pensions, MPF**
	Euan Miller	**Managing Director, WYPF**
	Tom Harrington	**Assistant Director of Pensions, Investments, GMPF**
	Paddy Dowdall	**Assistant Director of Pensions, Local Investment and Property, GMPF**
	Steven Taylor	**Assistant Director of Pensions, Special Projects, GMPF**
	Neil Cooper	**Head of Pension Investment, GMPF**
	Michael Ashworth	**Principal Investments Manager, GMPF**
	Owen Thorne	**Merseyside Pension Fund**
	Adil Manzoor	**Merseyside Pension Fund**
	Greg Campbell	**Merseyside Pension Fund**
	Leandros Kalisperas	**Chief Investment Officer, WYPF**
	Simon Edwards	**Assistant Director, Alternative Investments, WYPF**
	Colin Standish	**West Yorkshire Pension Fund**
	Joanna Wilkinson	**West Yorkshire Pension Fund**
	Alan McDougal	**PIRC**
	Janice Hayward	**PIRC**
	Tom Powdrill	**PIRC**
	Paul Hunter	**PIRC**

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 5 October 2023 were agreed as a correct record.

22. 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. (DLUHC had recently confirmed that implementation of climate reporting obligations would be delayed at least until 2024/25).

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. On 11 July 2023 the long-awaited consultation, titled ‘LGPS: Next Steps on Investments’, was finally released, with a closing date for responses of 2 October 2023.

A summary of consultation proposals was provided in the report. The NLGPS Pool response was also attached to the report.

Alongside the Chancellor’s Autumn Statement, the response to the “next steps on investments” consultation was published by DLUHC on 22 November 2023. The consultation largely adopted the measures the Government originally consulted on despite significant negative feedback to several of the proposals. The measures the Government was due to adopt were set out in the report.

Members were advised that the Directors of the three NLGPS Partner Funds recently met with the lead Civil Servant for the LGPS at DLUHC to discuss the measures and their potential implications for the NLGPS. Whilst it is clear that DLUHC’s preferred model of pooling will be very different to NLGPS, indications were that Government would take more of a ‘comply or explain’ approach than seeking to use its direction powers under the LGPS Investment Regulations.

Both the Pool and individual funds would need to consider whether any changes to their reporting of pooling activity was required in light of the consultation proposals. The consultation also indicated that DLUHC would monitor fund annual reports whilst preparing further guidance.

Members were reminded that, at the previous Joint Committee meeting, the idea of preparing a Pool Business Plan for 2024/25 was discussed. A draft of the Business Plan was currently being prepared. The proposed initiatives, which excluded items considered business as usual (such as allocating to NPEP and GLIL) were detailed in the report.

It was reported that each of the partner funds in the Northern LGPS Pool had produced 31 March 2023 year end accounts and a draft annual report (still in draft due to delays in finalising the administering authority accounts/audit).

Whilst the recommendations of the CIPFA guidance went far beyond the requirements of the current pooling regulations, the Pool had in the past, considered it to be expedient for partner funds to provide where possible, the disclosures which were either mandatory or deemed best practice in the CIPFA guidance.

Since 2022, it had been agreed by the Joint Committee that a Pool Annual Report be produced, which funds would have the option of including within their respective annual reports. This would act to provide some of the information to satisfy CIPFA guidance and could be used by the funds in their communications with stakeholders to provide evidence of the Pool's progress against its objectives. A link to the draft of the 2023 Northern LGPS Annual Report was provided in the report.

In terms of progress reports, it was explained that DLUHC had once again issued its annual request for a further progress update from each of the Pools, setting out the assets transferred to the pool as at 31 March 2023 and an estimate of costs savings achieved and those expected in future. Northern LGPS' net cost savings for 2022/23 had been calculated as £61.7m (increasing from approximately £41m in 2021/22), giving total savings since inception of £174m.

The cost savings of most other LGPS pools were not yet known, although the expectation was that few pools, if any, would have higher net savings achieved to date than NLGPS. Government was expected to report aggregated figures across the LGPS as a whole.

RESOLVED
That the content of the report be noted, the Northern LGPS Pool Annual Report be approved and the Pool Business Plan items for 2024/25 considered.

23. 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 3 July 2023 were appended to the report.

The Director of Pensions, MPF, attended the meeting on 20 November 2023 and provided a verbal update on the principal items on the agenda as follows:

- Sharia Compliance Update;
- Code of Transparency Update;
- Update on Economic Activity of Public Bodies (Overseas matters) Bill;
- Climate Risk Reporting;
- Private Markets Data Transparency;
- Terms of Reference;

- Committee Workplan;
- RIAG Report; and
- DLUHC Regulatory Update.

RESOLVED
That the report be noted.

24. COMMON CUSTODIAN – CONTRACT EXTENSION AND FEE REVIEW

A report was submitted by the Assistant Director, Investments, GMPF, which explained that Northern Trust, an FCA regulated custodian, was selected as the Northern LGPS's preferred custodial service provider in March 2018. The contract award notice specified an initial period of 5 years, with an option to extend for a further 5 years.

Members were advised that Northern LGPS appointed a custodian selection and monitoring specialist to carry out a fee review and custodian monitoring exercise of the contractual arrangements with Northern Trust, to ensure that the current contractual arrangements with Northern Trust remained value for money.

The report outlined the process and results of the Fee Review and Custodian Monitoring exercise and detailed key findings.

It was reported that the results of the TML fee review and custodian monitoring exercise were generally very positive. The fees paid by the underlying three Northern LGPS Funds for custodial services compared extremely well vs peers.

On balance, Officers believed that Northern Trust were providing a good custodial service at a very competitive price and believed that the best approach to the continued provision of common custodial services was to exercise the option to extend the appointment of Northern Trust for a further 5 years.

RESOLVED
That the overall positive results of the benchmarking exercise be noted, and the three underlying Northern LGPS Funds exercise the option to extend the appointment of Northern Trust for a further 5 years.

25. COMMON CUSTODIAN UPDATE

Consideration was given to a report of the Assistant Director for Investments (GMPF) and 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.

Members 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 completed and in progress for GMPF, MPF and WYPF, were also detailed.

RESOLVED
That the report and presentation be noted.

26. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report and presentation of representatives of PIRC, which set out the Q3 2023 Northern LGPS Stewardship Report (attached as an appendix to the report).

Mr Powdrill and Mr Hunter of PIRC, presented the Q3 2023 Northern LGPS Stewardship report, which focused on and explored:

- Just Transition;
- Effective Engagements;
- Voting Statistics;
- Water Stewardship; and
- Labour rights and risks.

Discussion ensued in respect of the content of the report and presentation and it was:

RESOLVED
That the content of the presentation and the Q3 2023 Northern LGPS Stewardship report, be noted.

27. PERFORMANCE MEASUREMENT

Consideration was given to a report of the Assistant Director, Investments, GMPF, which provided Members with an update on performance measurement.

It was explained that, following Portfolio Evaluation Ltd's notification of their intention to cease trading, at the Joint Committee meeting of 6 July 2023, it was agreed that the Directors would finalise arrangements for a common performance measurement provider for Northern LGPS, such that a provider was in place for reporting periods commencing 30 September 2023.

The Northern LGPS Directors approved the appointment of Hymans Robertson as the common performance measurement provider for the Pool for reporting periods commencing 30 September 2023 at the September meeting of the Northern LGPS Directors.

Performance reporting for the Northern LGPS was being transitioned from Portfolio Evaluation Ltd, to Hymans Robertson. The on-boarding process was substantially complete, with only a few remaining items on the on-boarding plan remaining, including the benchmarking arrangements for property.

An extract from the Northern LGPS reporting for periods to 30 September 2023 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.

RESOLVED
That the performance reporting for periods to 30 September 2023 be noted.

28. 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).

Members were advised that, at the last meeting of the Committee the plans for changes to GLIL structure were agreed. Progress towards this had been limited. Officers at Northern LGPS Funds were ready to review and agree documents from LPPI subject to them reflecting the principles agreed at last meeting. Progress would be reported as it was made.

The GLIL report to investors for the period ending 30 September 2023, was appended to the report and key highlights detailed and discussed.
The core priorities for GLIL over next quarter and 12 months remained:

- Implementation of revised management arrangements;

- Management of investors' current allocations in accordance with the mandate;
- Continue to implement ESG strategies in line with investee Funds' objectives; and
- Continued Engagement with other LGPS Funds and Pools and potential aligned non LGPS investors.

RESOLVED
That the content of the report be noted.

29. 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 11 April 2024.

CHAIR

WIRRAL

LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**RISK REGISTER**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Board Members with a copy of the Fund's Risk Register.

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

RECOMMENDATION/S

That the Local Pension Board be recommended to consider the changes to the risk register and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. It is a recommendation of the Pension Regulator that risk is a standing item on the agenda of local pension boards.

3.0 BACKGROUND INFORMATION

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

3.2 Risk Management is a standing item on the monthly Fund Operating Group agenda and is updated for any new or changing risks that are identified. The Risk Register is also a standing item on the agenda for the Fund's Governance & Risk Working Party. The risks included in the register are principally in relation to administrative, financial and operational risks with investment and related actuarial risks addressed in the Funding Strategy Statement and Investment Strategy Statement.

3.3 Since the previous report, a number of changes have been made.

New risks

RR021 Climate risk has been added. Management of climate risk has been a focus of MPF for a number of years and addressed in its Investment Strategy Statement. Following the Pension Regulator's oversight of climate reporting it is deemed best practice for it to feature in the risk register.

Revised scores

RR003 3x4 to 3x3
RR009 5x4 to 4x4
RR018 2x4 to 2x5
RR019 3x2 to 3x3

Risks removed

RR005
RR006 & 007 merged
RR013 & 014 merged
RR017
RR021

Changes to the register are highlighted in red.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. Risk management may have financial and non-financial implications. Identifying, evaluating and measuring risk can provide the Fund with opportunities as well as managing threats to the achievement of its objectives to the benefit of stakeholders.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report. There is a statutory requirement for investment risk to be incorporated in the Investment Strategy Statement and Funding Strategy Statement. The Pension Regulator has identified the management of risk as a key objective for pension funds.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The assessment of risk is a factor in the direction and allocation of resources by management.

7.0 RELEVANT RISKS

7.1 The degree of our success in dealing with the risks we face can significantly impact on the achievement of our priorities and the trust placed in us by our stakeholders. Risk management is an integral part of the Fund's business planning, policies and procedures. A failure to provide the Board with information on legislative changes and the Fund's activities could hinder the Board in the discharge of its duties.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for 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 none arising directly from this report. Environmental and climate risks are also addressed in the Fund's Investment Strategy Statement.

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APPENDICES

Appendix 1 Risk Register

BACKGROUND PAPERS

CIPFA: Risk Management in the LGPS

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.3 (f) of its Terms of Reference:

(f) Review the risk register as it relates to the scheme manager function of the authority.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The risk register is a standing item on the Pension Board agenda.	

WIRRAL

LOCAL PENSION BOARD

27 MARCH 2024

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

REPORT SUMMARY

The purpose of this report is to provide Board Members with a copy of a report, relating to the write-off of property rental arrears, recently taken to Pensions Committee.

Appendix 2 to the report, (A report from CBRE Property Management detailing property rent arrears), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Local Pension Board be recommended to consider the report and note the write off of uncollectable property rental income recently approved at Pensions Committee.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 As set out in the accompanying report, CBRE considers a number of actions for the recovery of rental arrears before any write off is recommended.

3.0 BACKGROUND INFORMATION

3.1 CBRE are the managing agents for the Fund's property portfolio. Amongst other functions, they have responsibility for the collection of rent and management of arrears. On an annual basis they produce a report on uncollectable arrears which is attached as an appendix to this report.

3.2 CBRE attended the Investment Monitoring Working Party (IMWP) in March 2022 and discussed the effects on rent collection of the moratorium on legal action put in place by government during the pandemic. The IMWP was advised that from March 2022, a statutory arbitration process will come into effect for those debts that cannot be settled.

3.3 When property tenants enter administration or liquidation, CBRE will continue to invoice for rental payments in order to ameliorate the cost of void business rates to the fund. These amounts are included in the write-offs figure (where applicable).

4.0 FINANCIAL IMPLICATIONS

4.1 The total amount recommended for write off in the report is £28,000. The annual property rental income for 2022/23 was £31.7 million.

5.0 LEGAL IMPLICATIONS

5.1 The Board's purpose is to assist the Scheme Manager with the primary function of securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.

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 Due consideration and an assessment of the creditworthiness of existing and potential tenants of the Fund's properties is undertaken by CBRE but there are instances where a tenant goes into administration or liquidation due to adverse trading in difficult economic conditions.

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

A report from CBRE detailing property rent arrears is attached as appendix 1 to this report.

BACKGROUND PAPERS

Wirral Council Constitution

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.3 (b) of its Terms of Reference:

(b) Monitor performance of administration, governance and investments against key performance targets and indicators.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Pensions Committee	**21 February 2023** **22 June 2022** **29 March 2021**

WIRRAL

PENSIONS COMMITTEE

19 MARCH 2024

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

REPORT SUMMARY

The purpose of this report is to request that Members approve the write off of £28,000 of irrecoverable rent arrears from the Fund's property portfolio. The annual property rental income for 2022/23 was £31.7 million.

Appendix 1 to the report, (A report from CBRE detailing property rent arrears), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the write off of uncollectable property rental income of £28,000.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

3.1 CBRE are the managing agents for the Fund's property portfolio. Amongst other functions, they have responsibility for the collection of rent and management of arrears. On an annual basis they produce a report on uncollectable arrears which is attached as an appendix to this report.

3.2 CBRE attended the Investment Monitoring Working Party (IMWP) in March 2022 and discussed the effects on rent collection of the moratorium on legal action put in place by government during the pandemic. The IMWP was advised that from March 2022, a statutory arbitration process will come into effect for those debts that cannot be settled.

3.3 When property tenants enter administration or liquidation, CBRE will continue to invoice for rental payments in order to ameliorate the cost of void business rates to the fund. These amounts are included in the write-offs figure (where applicable).

4.0 FINANCIAL IMPLICATIONS

4.1 The total amount recommended for write off in this report is £28,000. The annual property rental income for 2022/23 was £31.7 million.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

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 Due consideration and an assessment of the creditworthiness of existing and potential tenants of the Fund's properties is undertaken by CBRE but there are instances where a tenant goes into administration or liquidation due to adverse trading in difficult economic conditions.

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

A report from CBRE detailing property rent arrears is attached as appendix 1 to this report.

BACKGROUND PAPERS

Wirral Council Constitution

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
Pensions Committee	**21 February 2023** **22 June 2022** **29 March 2021**

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

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