



Pensions Committee

Date:	Monday, 9 December 2024
Time:	6.00 p.m.
Venue:	Council Chamber, Wallasey Town Hall

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This meeting will be [webcast](#)

AGENDA

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

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

- 4. MINUTES (Pages 1 - 6)**

To approve the accuracy of the minutes of the meeting held on 24 September 2024.

5. PUBLIC QUESTIONS

5.1 Public Questions

Notice of question to be given in writing or by email by 12 noon, Wednesday 4 December 2024 to the Council's Monitoring Officer (via the online form here: [Public Question Form](#)) and to be dealt with in accordance with Standing Order 10. The question to be put at the meeting shall not exceed 100 words in length.

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

For more information on how your personal information will be used, please see this link: [Document Data Protection Protocol](#)

5.2 Statements and Petitions

Statements

Notice of representations to be given in writing or by email by 12 noon, Wednesday 4 December 2024 to the Council's Monitoring Officer (committeeservices@wirral.gov.uk) and to be dealt with in accordance with Standing Order 11.1.

Petitions

Petitions may be presented to the Committee if provided to Democratic and Member Services no later than 3 working days before the meeting, at the discretion of the Chair. The person presenting the petition will be allowed to address the meeting briefly (not exceeding three minutes) to outline the aims of the petition. The Chair will refer the matter to another appropriate body of the Council within whose terms of reference it falls without discussion, unless a relevant item appears elsewhere on the Agenda. If a petition contains more than 5,000 signatures, it will be debated at a subsequent meeting of Council for up to 15 minutes, at the discretion of the Mayor.

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

5.3 Questions by Members

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

6. **PENSION BOARD REVIEW 2023-24 AND WORK PLAN 2024-25 (Pages 7 - 30)**
7. **LOCAL GOVERNMENT PENSION SCHEME CONSULTATION: FIT FOR THE FUTURE (Pages 31 - 36)**
8. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE (Pages 37 - 42)**
9. **PENSIONS INVESTMENT REVIEW: CALL FOR EVIDENCE (Pages 43 - 54)**
10. **WIRRAL LOCAL PENSION BOARD MINUTES (Pages 55 - 64)**
11. **MINUTES OF WORKING PARTY MEETINGS (Pages 65 - 86)**
12. **CATALYST FUND UPDATE (Pages 87 - 94)**
13. **UPDATE ON INVESTMENTS IN DEFENCE COMPANIES (Pages 95 - 102)**
14. **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

The following items contain exempt information.

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

15. **PAYMENT OF DEATH GRANT (Pages 103 - 136)**

Terms of Reference

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

Audio/Visual Recording of Meetings

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

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PENSIONS COMMITTEE

Tuesday, 24 September 2024

Present:

Councillor B Hall (Chair)

Councillors JE Green GJ Davies
P Cleary H Cameron
C Carubia T Cox
B Kenny S Powell-Wilde
A Ainsworth J Bird (in place of Cllr
R Molyneux)

Councillors R Bennett, Liverpool Council
C Howard, Sefton Council

77 WELCOME AND INTRODUCTION

The Chair welcomed everyone and read out the webcasting notice.

78 APOLOGIES

Apologies for absence had been received from:

- Councillor Ruth Molyneux. Councillor Jo Bird was in attendance as substitute.
- Councillor Jayne Lonergan (Knowsley Council)
- Roger Bannister (Retired Members representative)
- John Rae (LGA Non District Representative)

79 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to declare pecuniary or non-pecuniary interests in items on the agenda. The following declarations were made:

Councillor George Davies	Personal interest as his wife was a member of Merseyside Pension Fund.
Councillor Brian Kenny	Personal interest as his wife was a member of Merseyside Pension Fund.
Councillor Jo Bird	Personal interest as her partner is a member of Merseyside Pension Fund
Councillor Brenda Hall	Personal interest as a member of Merseyside Pension Fund and her husband is a deferred member
Councillor Sue Powell-Wilde	Personal interest as a member of Merseyside Pension Fund and her husband was a member

80 **MINUTES**

Resolved – That the minutes of the Pensions Committee held on 30 July be agreed as a correct record.

81 **PUBLIC QUESTIONS**

No questions, statements or petitions had been received.

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

A representative of Grant Thornton presented the report which 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 2024. Subject to the satisfactory completion of the outstanding audit work, Grant Thornton's anticipated audit opinion would be unqualified.

Members discussed the impact of impact of increased costs of audit fees and the work being undertaken to review segregation of duties conflict with the Oracle Fusion Management system.

Members also placed on record Committee's thanks to the team involved in the successful implementation of the Oracle Fusion IT system.

Resolved – That the Audit Findings Report for Merseyside Pension Fund be noted.

83 **MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2023/24 AND LETTER OF REPRESENTATION**

The Head of Finance and Risk at Merseyside Pension Fund presented the report which sought approval for the Annual Report and Statement of Accounts for Merseyside Pension Fund for 2023/24 and a letter of representation prepared by Officers on behalf of the Committee. The Fund's financial position for the year ended 31 March 2024 was reported as £10.8bn. It was reported that the external audit work had identified one adjustment to the financial statements financial position alongside a small number of changes to the disclosure notes have also been which had been agreed.

Resolved – That

- 1. The audited Statement of Accounts for 2023/24, the Audit Findings Report and the letter of representation be approved;**
- 2. The recommendation above be referred to the Audit and Risk Management Committee; and**
- 3. The publication of the Annual Report of Merseyside Pension Fund for 2023/24 be approved.**

84 LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE

The Head of Pensions Administration introduced the report of the Director of Pensions which provided an overview of central government policy impacting the Local Government Pension Scheme. Members were advised of the new governments legislative programme and proposed bills such as the National Wealth Fund and the Government Landmark Pension Review.

Members discussed the implications of a draft bill on audit reform and governance for the reporting of the annual report and accounts for the pension fund in the future. Members also considered the impacts of the Government Landmark Pension Review. In response to queries, the Director of Pensions noted that the government had indicated that the review would consider several pooling models for pension funds with the aim of providing more uniformity across the sector. Members also considered the impact of the government's proposed national wealth fund and the encouragement of investment in the UK. The Director noted that the government's call for evidence provided the opportunity to make suggestions to government on measures to encourage pension funds to invest in the UK but that Members under their fiduciary duty should only agree to more investment in the UK if justified by the prospective financial returns.

Resolved – That the report be noted.

85 PENSIONS ADMINISTRATION STRATEGY

The Head of Pensions Administration introduced the report of the Director of Pensions which outlined and recommended proposed revisions to Merseyside Pension Fund's Pensions Administration Strategy (PAS) which was last approved by Pensions Committee on 13 November 2017. It was reported that the PAS had been updated to reflect the transition from annual to monthly data submissions and developments in the automation of exchanging data.

Resolved – That the revised draft Pensions Administration Strategy and charging schedule be approved, with implementation taking effect from Monday 30 September 2024.

86 PENSIONS INVESTMENT REVIEW: CALL FOR EVIDENCE

The Director of Pensions introduced the report which set out details of a pensions review, launched by the Chancellor, with the objective of boosting investment, increasing saver returns and tackling waste in the pensions system. It was reported that a call for evidence was issued on 4 September and was to close on 25 September. The call for evidence was discussed with members on 18 September at the Investment Monitoring Working Party

Members noted that the timescales to prepare a response were extremely short. The Director confirmed that this had been raised with the government and that in response it was confirmed that the initial call for evidence would be followed by a full consultation process for a longer period to provide comprehensive deliberation on the matters.

Resolved – That

- 1. The report be noted; and**
- 2. The Director of Pensions, in consultation with the Chair and Spokespersons, be authorised to approve the response to the call for evidence on behalf of the Fund with the directors of Greater Manchester and West Yorkshire pension Funds on behalf of the Northern LGPS Investment Pool.**

87 MERSEYSIDE PENSION FUND CONFLICT OF INTEREST POLICY

The Head of Pensions (Finance and Risk) introduced the report of the Director of Pensions which presented the draft conflict of interest policy for Merseyside Pension Fund for approval. It was reported that the policy set out a process for identifying, monitoring and managing conflicts of interest and included a code of conduct and guidance on to whom the policy applied.

Members discussed the specific changes that the policy sought to introduce. The Head of Pensions confirmed that the policy built upon existing procedures and various legislation under one policy and that it was considered best practice for administering authorities to set out a specific conflict of interest's policy within the context of the Pensions Fund.

Resolved – That the conflict-of-interest strategy for Merseyside Pension Fund be approved.

88 NLGPS UPDATE

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

Resolved – That the Committee note the report and the minutes of the Joint Committee meeting.

89 WIRRAL LOCAL PENSION BOARD MINUTES

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

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

90 MERSEYSIDE PENSION FUND AUTHORISED SIGNATORIES

The Director of Pensions introduced the report which proposed changes to authorised signatories at Merseyside Pension Fund (MPF) following a review of the current signatories against business needs. It was reported that the proposed change was to add one additional signatory for investment decisions and documents only.

Resolved – That

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

91 MINUTES OF WORKING PARTY MEETINGS

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

Councillor Jeff Green noted that his apologies had been omitted from the minutes of the Responsible Investment Working Party. With that amendment, it was:

Resolved – That

- 1. The recommendation from the Responsible Investment Working Party on 5 September 2024 that the Director of Pensions in consultation with the Chair and Spokes be authorised to approve a final version of Merseyside Pension Fund’s (MPF) submission to the Financial Reporting Council (FRC) for the October 2024 deadline be approved;**
- 2. The working party minutes be approved.**

92 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 paragraph 3 of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

93 MINUTES OF WORKING PARTY MEETINGS EXEMPT APPENDICES

Resolved – That the exempt appendices be noted.

94 DEATH GRANT

The Director of Pensions presented the exempt report.

On a motion proposed by Councillor Pat Cleary, seconded by Councillor Chris Carubia, it was:

Resolved – That option (a) as set out in paragraph 3.28 of the exempt report be agreed.

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PENSIONS COMMITTEE

9 DECEMBER 2024

REPORT TITLE:	PENSION BOARD REVIEW 2023-24 AND WORK PLAN 2024-25
REPORT OF:	INDEPENDENT CHAIR OF PENSION BOARD

REPORT SUMMARY

This report reviews the work and performance of the Board and its Members between 1 April 2023 to 31 March 2024 and includes a proposed Work Plan for 2024-2025.

RECOMMENDATIONS

That the Pensions Committee be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

- 1.1 Section 12.3 of the present Terms of Reference of the Local Pension Board of the Merseyside Fund states that *“The Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Scheme Manager. The contents of this annual report will be subject to consideration and agreement at a meeting of the Board...”*

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report as there is a requirement for the Pension Board to produce an annual report of its activities.

3.0 BACKGROUND INFORMATION

- 3.1 Under its present Terms of Reference, the Board is required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review has been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 9 July 2024. Following consideration by the Board an approved version of this review will be presented by the Independent Chair to the Pensions Committee at its meeting on 9 December 2024.

3.2 Purpose and Constitution of the Merseyside Local Pension Board

- 3.3 Under its Terms of Reference, the purpose of the Merseyside Local Pension Board is to assist the Administering Authority (Wirral MBC) in its role as a Scheme Manager under the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations. The Board consists of nine members and is constituted of four Employer representatives, four Employee representatives and an Independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board. The Board provides a specific forum for Employers and Employees to be actively involved in the governance of the Merseyside Fund on an ongoing basis.

- 3.4 The Board is fortunate in having had at every meeting since its creation in 2015, the presence of both the Director of Pensions and members of his Senior Management Team to advise and support the Board. Additionally successive Chairs of the Wirral Pensions Committee have been actively supportive of the work of the Board and have attended, on occasion, meetings of the Board.

3.5 Summary of issues considered at Board Meetings 2023-2024

- 3.6 Issues considered at each Board meeting, in addition to the Minutes of the previous meeting and Declarations of Interest are shown in the Table below:

	20/06/2023	27/09/2023	12/12/2023	27/03/2024
Risk Register	YES	YES	YES	YES
Pensions Administration Report	YES	YES	YES	YES
Working Party (IMWP/GRWP) Minutes	YES	YES	YES	YES
Investment Pooling/Northern LGPS Pool Update	YES	YES	YES	YES
LGPS Update	YES	YES	YES	YES
LGPS Investment Related Consultations	YES	YES		YES
Pension Board Review 2022-23 & Plan 2023-24	YES			
External Audit Plan 2022-23	YES			
External Audit Questionnaire & Responses 2022-23	YES			
Members Learning and Development Programme	YES			
(External) Audit Findings Report 2022-23		YES		
Internal Audit Annual Report 2022-23		YES		
Fund Annual Report & Accounts 2022-23		YES		
Establishment of Working Party			YES	
Revised Investment Strategy			YES	
Update on Catalyst Fund			YES	
Pension Fund Budget 2024-25				YES
Treasury Management Policy 2024-25				YES
Property Portfolio Rent Arrears & Write Offs				YES

3.7 The Pension Board Agenda has developed to comprise of five standing items which are of particular importance to both the good governance and operational effectiveness of the Merseyside Pension Fund. These are: **The Risk Register; The Pensions Administration Quarterly Report; The Fund Working Party Minutes (Investment Management Working Party & Governance and Risk Working Party); The Investment Pooling/Northern LGPS Update; the LGPS Update report.** During 2023-24 the Board actively considered and debated the reports and papers presented in respect of these items. Constructive questions were asked of the Fund Officers and, as appropriate, comments and suggestions made by Board Members.

3.8 There are also a number of other important issues where, for the promotion of good governance and assurance, the Pension Board receives reports on an annual basis. These include the External Audit Plan; the External Audit

Questionnaire and Management Responses; the Fund Budget; the Annual Report and Accounts; the Treasury Management Policy; Write offs; the Internal Audit Annual Report. Again during 2023-24 the Board actively considered and discussed the reports and Officer presentations. In addition (usually at the June/July meeting) the Independent Chair presents a review of Board activity for the previous year (April to March).

- 3.9 In addition to the above issues the Board considers as appropriate other issues of importance to the governance and operation of the Merseyside Pension Fund. These are normally identified well in advance and included in the Annual Work Plan which is jointly agreed by the Director of Pensions and Independent Chair and included towards the end of the Independent Chair's Annual Review for the consideration of the Pension Board. As appropriate items are (after consultation between the Director of Pensions and Independent Chair) added to or removed from the Work Plan during the year. Such other items which the Board considers from time to time include proposed revisions to the major Fund strategies/policies and Government Consultations (for example, in 2023-24 the Revised Investment Strategy and the Government Consultation "**Next steps on investments**"), and particular major Fund developments such as the establishment of the Responsible Investment Working Party which was considered at the Board meeting on 12 December 2023.
- 3.10 Additionally, the Administering Authority has granted Board Members the right of attendance at the Fund Working Party meetings where the decision makers of the Fund (the Pension Committee Members and Senior Officers of the Fund) meet with Fund Advisors to discuss a wide range of issues relating to both the strategy and operation of the Fund. This invitation enables the Board to not only observe the important presentations and discussions at these meetings but also to actively participate in them.
- 3.11 The Minutes of the Board Meetings are the official record of the meeting. Although these can only be approved by the whole Board at the following meeting the preparation of the draft Minutes is a vital task. Therefore, I would wish to thank Wirral MBC Committee Services for their support at Board meetings and for producing the initial draft Minutes. I would also wish to acknowledge that as Chair I am fully consulted and have the opportunity to input to the draft Minutes before they are presented to the whole Board at the following meeting.
- 3.12 In order to facilitate comparison of this Annual Review with that for 2022-23 I have kept so far as possible to the same headings and order of coverage as in the previous Annual Review.
- 3.13 Further commentary in relation to a number of the reports detailed in the table above is included below, in this Review. Firstly, however, I would wish to comment on the positive contribution of the Board Members, Officers of the Fund, and Chair of the Pensions Committee to the work and activity of the Board in 2023-24.

3.14 **Members of the Pensions Board**

3.15 Since 2015 the Merseyside (Wirral) Local Pensions Board has been extremely fortunate with regard to the genuinely active role played by the Members of the Board. 2023-24 was, again, no exception to this. Eight of the nine Members who served throughout 2022-23 continued to serve throughout 2023-24. Therefore, again the Board benefitted from the input of highly experienced and knowledgeable representatives of both Employers and Employees. The Board membership comprises representatives from a diverse range of backgrounds and organisations with extensive experience of (for example) human resources, finance, information technology (including cyber risk), pensions in general and the LGPS in particular.

3.16 During the year 2023-24 overall attendance at Board meetings was 82% with four of the eight members who served throughout the year achieving 100% attendance. While attendance levels are clearly relevant, the actual value and impact of the Board Members is demonstrated more by their active and constructive participation at Board meetings than by simple reference to attendance statistics. In this respect the Board was again most fortunate.

3.17 I wish to place on record my personal thanks to each Member who served throughout 2023-24: Donna Ridland, Lyn Robinson, Pat Maloney, Peter Fieldsend, Robin Dawson, Roger Irvine, and Stephan Van Arendsen. There can be no doubt that the Merseyside Fund has a clearly knowledgeable and positively engaged group of Pension Board Members seeking, without exception, to actively and genuinely interact with the Fund on behalf of both Employees and Employers and to assist the Pensions Committee to achieve not only compliance with relevant legislation, regulations, and guidance but also to achieve effective and efficient governance and administration of the Merseyside Pension Fund. The deep knowledge, understanding and extensive experience of individual Board members is absolutely clear. This applies equally to both Employee and Employer representatives which further strengthens the Board's ability to effectively fulfil its role of assisting the Wirral MBC Pensions Committee. This is further enhanced by their backgrounds across local government, the wider public sector, and the private sector.

3.18 During 2023-24 it was very pleasing for the Board to welcome Ian Williams, Corporate Director of Finance and Resources and S151 Officer of Liverpool City Council. Ian filled the vacancy for an Employer Representative resulting from the resignation of Geoff Broadhead (to which I referred to in my 2022-23 Annual Review).

3.19 **Support for the Board by the Fund Officers during 2023-24**

3.20 The requirement, under the LGPS Regulations 2013 for each LGPS Fund to establish a Pension Board, comprised of equal numbers of Employer and Employee representatives to assist the Pensions Committee provides a genuine opportunity to significantly enhance the involvement of stakeholders in LGPS Fund governance.

- 3.21 That the Pension Board can provide effective input and genuinely contribute to the ongoing development, activity, and monitoring of a LGPS Fund is, however, not in any way guaranteed or even facilitated by the fact that there is a regulatory requirement to establish a Pension Board. A fundamental requirement for a Board to be effective is genuine and extensive input by and support from the Fund Officers.
- 3.22 During 2023-24 the Board received the same exemplary and positive support, advice, and guidance from the Fund Officers as in previous years, going back to the creation of the Board in 2015. Meetings of the Board were supported and attended by the Director of Pensions and the senior members of his team responsible for Pensions Administration/IT and the Finance/Risk Management of the Fund. This Officer support at meetings is the same as that provided to the Pensions Committee and reflects the importance and value the Fund has continuously placed on the Board since its creation.
- 3.23 Not only, as in previous years, did the Board receive quality written reports but the standard of oral presentation and responses to questions/observations was also of a very high standard thereby further facilitating positive contribution by the Board to the governance (in its broad sense) of the Merseyside Pension Fund. On behalf of the Board, I would like to place on record my appreciation of the individual and collective support provided by the Director of Pensions (Peter Wallach), the Head of Pensions Administration (Yvonne Murphy), the Head of Finance and Risk (Donna Smith) and the Senior Manager Operations and Information Governance (Guy Hayton). Additionally, I must thank Emma Littler (Personal Assistant to the Director of Pensions) for her valued contribution to the functioning of the Board.
- 3.24 During 2023-24 there were, again, frequent discussions between Board meetings, involving myself and in particular the Director of Pensions and also the Head of Pensions Administration. These covered a range of issues and were initiated by both the Officers and myself. The willingness of senior Fund Officers to genuinely engage with the Independent Chair between Board meetings is not only very positive and appreciated but necessary to facilitating effective Pension Board activity and input to the Merseyside Pension Fund. I would wish to place on record my appreciation to the Director of Pensions both for his timely and efficient responses to my queries and for his activism in contacting and communicating with me throughout the year.
- 3.25 **Support for the Board by the Chair of the Pensions Committee during 2024-25**
- 3.26 Another important factor in both the nature and effectiveness of the relationship between the Pension Board and the Fund is the approach of the Chair of the Pensions Committee to the Board.
- 3.27 From May 2023 Councillor Julie McManus became Chair of the Pensions Committee. It is pleasing to report, that as with the two previous Pensions

Committee Chairs, Councillor McManus engaged positively with me as Chair of the Pensions Board. I had positive and constructive discussions with Councillor Julie McManus particularly with regard to the recruitment and retention of staff by the Merseyside Pension Fund and would wish to place on record my appreciation to her for her approach in respect of those issues I raised.

- 3.28 From May 2024 Councillor Julie McManus has been appointed Chair of the Wirral MBC Adult Social Care and Public Health Committee. Therefore, the Pension Board looks forward to continuing its constructive and positive relationship with the Pensions Committee under its new Chair Councillor Stephen Bennett.
- 3.29 **The Risk Register**
- 3.30 Risk Management is fundamental to effective Pension Fund governance and operations across the Pensions Administration, Finance, and Investment functions. Therefore, the management of Risk is clearly a key responsibility of those charged with the Governance and management of an LGPS Fund. While the ultimate responsibility at the Merseyside Fund lies with the Wirral MBC Pensions Committee the Pension Board clearly also has an important role in Risk Management. The Foreword to the CIPFA publication on Managing Risk in the LGPS (2018) states *“As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register.”*
- 3.31 One important element of Risk Management is examination, active consideration, and as appropriate constructive questioning of the Risk Register by the Pension Board. This was a prominent activity of the Board during 2022-23 although given the nature of the discussions it was appropriate that these took place in the Exempt Agenda of each meeting. The Director of Pensions, as in previous years highlighted elements of the Risk Register to meetings of the Board and he, and other senior Officers, responded constructively to our questions and observations.
- 3.32 As in 2022-23 Recruitment and Retention remained the highest risk on the Risk Register throughout the year. The Board continued to constructively discuss and clearly support the need for the Fund to be able to both recruit and retain suitable staff, at all levels and in all parts of the organisation. Board Members made positive observations including the suggestion that in appropriate cases “market supplements” should be utilised. The Board was (pleased to be) made aware, during the year, of progress in discussions between the Director of Pensions and Wirral HR on this issue. The Board will, however, maintain an active and ongoing interest in this issue going forward as it remains acutely aware of the challenges facing the Fund in relation to recruitment and retention.
- 3.33 It was clearly positive to observe the reduction (reported at the June 2023 meeting) in the risk score and then the removal of the risk (reported in March

2024) in relation to the implementation of the new Enterprise Report Planning (ERP) system which had been a matter of concern to the Board in 2022-23. Thanks, are clearly due to both the Merseyside Fund Officers and the (wider) Wirral MBC Officers who enabled the successful implementation of the new system.

3.34 Cyber risk is clearly a major issue facing all Pension Funds. For example, The Pensions Regulator (TPR) has included very clear expectations in relation to cyber risk and controls in it's new "**General code of practice**" (see pages 115 to 117) which came into effect on 28 March 2024. Furthermore, TPR updated its (more detailed) "**Cyber security principles for pension schemes**" in December 2023 ahead of the publication of the new General code of practice. The issue of Cyber risk was a matter to which the Board paid particular attention to and undertook extensive constructive questioning in respect of throughout 2023-24. The experience of some Board Members in this respect was particularly helpful. While acknowledging the positive work of both the Fund Officers and the Wirral Council IT Team the Board emphasised and remains concerned regarding the challenges of assessing the effectiveness of security measures in light of increasingly sophisticated attacks. Officers confirmed to the Board that this would continue to be a matter of active discussion and interaction with the Wirral Council's IT Team.

3.35 Pension Administration Reports

3.36 Effective Pensions Administration is absolutely fundamental to the Merseyside Pension Fund. Ultimately the Pension Fund (only) exists to provide pension benefits to those entitled to them as determined by the LGPS Regulations. Therefore, Pensions Administration was, as in previous years an area of particular interest and focus for the Board. Interest in, and examination of Pensions Administration is of particular relevance to the Board as this is the most immediate and important direct interface between the Merseyside Pension Fund and both Employers and Employees who are the two groups equally represented on the Board.

3.37 The Pension Administration Monitoring Report presented to each Board meeting during 2023-24 was detailed and wide ranging and provided a broad range of both statistical data and commentary. The report includes, for example ongoing reporting of Membership Trends, Workflow Statistics, Pensions Administration resourcing, Employer Engagement and activity, "McCloud" preparations and progress, Complaints, Internal Dispute Resolution Procedure, Member Web Portal (MyPension) and Cybersecurity. Again, as in previous years, each Quarterly Report was considered in detail by the Board and constructive questions raised with officers. For example, at the September 2023 meeting there was a considerable discussion between Members of the Board and Officers in relation to Cyber security.

3.38 These reports also consider national issues/developments including in the context of the Merseyside Fund. For example, the June 2023 report included commentary on the Scheme Advisory Board Gender Pay Gap Report of March

2023 and provided some high level comparisons regarding the situation nationally across the LGPS with that experienced by that of the Merseyside Fund membership. Reporting on other such issues included, in March 2024, the National Pensions Dashboard, the Scheme Advisory Board (SAB) Surpluses Working Group, and the Pensions Regulator (TPR) revised Cyber security principles for pension schemes.

3.39 At the September 2023 meeting the Board commended the Fund on the provision of the “*Pay your pension some attention*” sessions run as part of Pensions Awareness week during September 2023.

3.40 **Working Party (IMWP/GRWP) Minutes**

3.41 The consideration of and focus on overall Fund governance was, facilitated by consideration of the Minutes of the two standing Elected Member led working groups – the Investment Management Working Party (IMWP) and the Governance and Risk Working Party (GRWP) which are also attended by a broad range of Officers/Advisors. As in previous years Pension Board Members attended some Working Party meetings as Observers but with the facility to ask questions and engage in the discussions. The open invitation to Board Members to attend both these groups is a very clear example of the positive approach of the Administering Authority to the Board. Having attended Working Party meetings I can also definitively state that Pension Board Members can, in practice, actively contribute in the same way as Pension Committee Members to the important discussions and deliberations that occur at these meetings.

3.42 These Minutes also evidenced the wide range of issues not merely covered, but actively considered and discussed. Examination of the Minutes supplemented by attendance by Board Members at some Working Party meetings provided evidence and (some) assurance in relation to both the positive governance and operation of the Fund. I would wish to thank those Members of the Board who attended Working Party meetings in March 2023 and during 2023-24 and to encourage attendance in 2024-25.

3.43 **Investment Pooling and the Northern LGPS Pool**

3.44 Board Members in 2023-24 as in previous years actively and positively considered and supported the development, as proposed by the three relevant Administering Authorities/ Funds (Wirral/Merseyside, Bradford/West Yorkshire, and Tameside/Greater Manchester) of the Northern LGPS Investment Pool. The Board considers that this approach genuinely meets the four criteria as set out in the Government’s Pooling Guidance “**Local Government Pension Scheme: Investment Reform Criteria and Guidance**” of November 2015. Examination of the Minutes of the **Northern LGPS Joint Oversight Committee** presented to the Board during 2023-24 provided assurance as to the genuine and proactive development of pool wide private market solutions across all of Infrastructure, Private Equity and Property.

- 3.45 In particular the Board has been very supportive of the governance and decision making arrangements of the Pool which are invested in the Northern LGPS Joint Oversight Committee which consists of six Elected Member representatives from the Administering Authorities and three from the Trade Unions. This means that the Pool can act in the genuine interests of and to the genuine benefit of the three LGPS Funds which participate in the Northern LGPS Pool while also providing meaningful representation to the Scheme membership. Trade Union representatives have attended the Joint Oversight Committee since April 2023 and it is pleasing to note the level of their attendance, as recorded in the Committee Minutes included in this Board's Agenda papers during 2023-24.
- 3.46 During 2023-24 the Government issued both a Consultation and a subsequent Consultation Outcome which were primarily focussed on Investment Pooling, and which will be referred to further later in this review.
- 3.47 **LGPS Update reports.**
- 3.48 The quarterly LGPS Updates received at each Board meeting are both a source of valuable information on a broad range of national issues with a particular focus on latest developments, and also very useful to Board Members in helping to fulfil their knowledge and understanding obligations under the Public Service Pensions Act 2013 which refers to Board Members been "*conversant*" with the "*rules*" and documents relating to the "*scheme*." The word "*conversant*" includes, in my view, within its general meaning, to keep up to date and this is exactly what the quarterly LGPS Updates enable the Board both individually and collectively to achieve in terms of their knowledge and understanding of the LGPS at a national as well as local (Merseyside Fund) level.
- 3.49 During 2023-24 issues on which the Board received updates included "McCloud" with a particular focus at the December 2023 meeting), the Pensions Dashboard, Annual and Lifetime Allowance changes, the State Pension Age Review 2023, the Cost Control Mechanism, The Pensions Regulator "*General Code of practice*." I would, as in previous years, wish to thank the Head of Pensions Administration for her presentations of the LGPS Update reports which were most helpful in illuminating the implications of national developments in the specific context of the Merseyside Pension Fund.
- 3.50 The broad knowledge, understanding and experience of the Board Members to which I referred earlier was very clearly demonstrated at the 12 December 2023 meeting where the LGPS Update focussed particularly on "McCloud" (Age Discrimination in the LGPS). The report included a clear explanation from the Head of Pensions Administration of the actions of and implications for the Merseyside Pension Fund of "McCloud" including the financial and resource (staff, ICT, and assets). Board Members were clear that "McCloud" had occurred because the then Government had failed to take account of equalities legislation (primarily the Equality Act 2010) when the public service pension schemes were reviewed and amended during the period 2010 to 2013. This issue and its consequences had been caused wholly by Government not the

LGPS or any Scheme Employer. Consequently, a Board Member, applying experience of local government, and in particular Adult Social Care, suggested that the costs to the Fund of remedying McCloud could fall within the New Burdens Doctrine. Therefore the Board 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...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.”***

3.51 I would wish to thank the Head of Pensions Administration for producing a draft letter to the Scheme Advisory Board (SAB) the following day (13 December 2023) and for consulting with Donna Ridland and myself and requesting any suggested amendments. The final version was submitted to SAB on 14 December 2023. I am also pleased to record that the Head of Pensions Administration forwarded this letter to the Chair of the Pensions Committee and Group Leads on 15 December 2023.

3.52 **Internal Audit Report 2022-23**

3.53 At its September 2023 meeting the Board received, as it does annually, a presentation and the most recent Merseyside Pension Fund Internal Audit Annual Report which on this occasion covered 2022-23. The reviews undertaken by Internal Audit provide an important source of assurance, or otherwise, regarding both the overall governance of the Fund and the governance/operation of specific areas of Fund activity. For 2022-23 following an assessment of risks a decision was made to continue with 150 audit days input. The reason for this was to *“ensure there was sufficient and wide-ranging coverage in order for Internal Audit to provide a robust assessment of the MPF control environment...”* Audits undertaken during 2022-23 covered aspects of all of Investment, Pensions Administration, and Finance.

3.54 It was reassuring to note the (positive) results of the completed audits undertaken during 2022-23 and the comment in the Chief Internal Auditor’s report that *“...There has been positive engagement with management throughout the year...”* Most important the Chief Internal Auditor’s overall Opinion included (as it had similarly in the previous years) that *“The assessment found that in all of the systems audited in 2022/23 there is a sound system of control in place, those controls are consistently applied and fully effective. In some cases, the work undertaken did identify a number of actions to improve the systems in operation and strengthen the control environment, although none of these were significant.”*

3.55 After considering the Report and hearing from the Chief Internal Auditor the Board was pleased to approve a resolution *“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.”* I would also

wish to record, on behalf of the Board, our appreciation for the broad and extensive work of Internal Audit in relation to the Fund.

3.56 Financial related reporting

- 3.57 During 2023-24, as in previous years, the Board received a broad range of reports and documents which have a significant financial emphasis, but which are also clearly relevant to the overall governance and wider operation of the Fund. These included the External Audit Plan 2022-23; External Audit Questionnaire and (Fund) Responses 2022-23; (External) Audit Findings Report 2022-23; Fund Annual Report and Accounts 2022-23, Pension Fund Budget 2024-25; Treasury Management Policy 2024-25. As in previous years these reports and documents and the informative presentations made at the actual meetings (primarily by the Head of Finance and Risk), gave the Board clear opportunity to understand, review and ask questions regarding the overall planning and operation of the Funds' activities, as well as its financial processes and controls. The Board (at its meeting on 27 September 2023) commented positively on the presentation and readability of the Annual Report and Accounts 2022-23.
- 3.58 The Board has in previous years been very clear as to its support for resourcing and additional resourcing to ensure that the Fund can continue to offer a good level of service to both Employers and individual members of the Scheme going forward. This remains a clear area of focus for the Board. Therefore, the Board was pleased to receive the report **Merseyside Pension Fund Budget Financial Year 2024-25** at its meeting held on 27 March 2024 and to observe the developments and ongoing developments particularly in relation to staffing. To emphasise the importance of this issue and the Board's commitment to the resourcing of the Merseyside Pension Fund it resolved that ***"The Local Pension Board noted the report and considered the best practice requirement for Local Government Pension Schemes (LGPS) funds to set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements."***
- 3.59 Before commenting on the Pension Fund Statement of Accounts and related matters I would wish to note the positive efforts and positive achievement of the Director of Finance, all Finance staff and indeed all relevant employees of the Wirral MBC in relation to the entire Annual Accounts 2022-23 of the Wirral MBC. In the present national situation relating to the preparation and approval of Council Annual Accounts the fact that the External Auditor has issued (in April 2024) an unqualified opinion on the Financial Statements in respect of the entire Wirral MBC 2022-23 Annual Accounts (including the Pension Fund Accounts and a (completed) Audit Certificate is a clear and noteworthy achievement. Nothing else I say in this report should in any way be construed as in any way as critical of the Director of Finance, his staff, or the Wirral MBC itself. All are to be congratulated in relation to the 2022-23 Financial Statements.

- 3.60 The Pension Fund is required to prepare an annual Statement of Accounts (see for example Regulation 57 of the LGPS Regulations 2013 and Regulation 7 of the Accounts and Audit Regulations 2015). The Statement of Accounts is required to present fairly the financial position of the Fund at 31 March and its income and expenditure for the year ended 31 March. The accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts includes extensive Notes including in respect of the valuation and analysis of investments.
- 3.61 The Fund's approach to and ability (or otherwise) to prepare and submit the Pension Fund Statement of Accounts in a manner which is both timely and accurate is a clear indication of the quality not only of the Pension Fund Finance function but of the whole Pension Fund in terms of not only the robustness of financial related activity but all activity and the overall governance of the Pension Fund. It was pleasing to observe that the 2022-23 Pensions Statement of Accounts, including Notes, were prepared and available for audit by 1 June 2023 (and that the Fund's Annual Report was available for Audit in August). The Pension Board received the External Audit Plan together with the External Audit Questionnaire and Fund responses at its meeting held on 20 June 2023, and both the 2022-23 Fund Annual Report and Accounts, and the (External) Audit Findings Report 2022-23 at its meeting held on 27 September 2023.
- 3.62 At the 27 September 2023 meeting it was pleasing to observe from the External Audit Findings Report, and the covering Officer report to the Annual Report 2022-23 that *"The accounts were prepared and submitted for external audit on 1 June 2023. The external auditors, Grant Thornton, subject to outstanding work, have indicated there will be an unqualified opinion. The audit work has not identified any adjustment to the financial statements' financial position; a small number of changes to the disclosure notes have been made. At the time of preparing this report, the Fund has agreed to these amendments and there are no recommendations..."* Recognising both the complexity of the Pension Fund Accounts, together with the extent of the examination and scrutiny to which Pension Fund Accounts are now subjected to by External Auditors the positive content of the Audit Findings Report for 2022-23 is noteworthy.
- 3.63 Notwithstanding that on 26 September 2023 the Pensions Committee had resolved that *"The Audit Findings Report, the amendments to the accounts, the Letter of Representation and the audited Statement of Accounts for 2022/23 be approved."* And *"The recommendations above be referred to the Audit and Risk Management Committee."* And *"The Annual Report of Merseyside Pension Fund for 2022/23 be approved for publication"* Officers, informed the Board that the Pension Fund Accounts could only be approved by the External Auditor once the entire Wirral MBC Accounts were approved and hence there was likely to be a delay. This is because at present in England, unlike in Scotland and Wales, the Pension Fund Accounts form part of the overall Accounts of the Administering Authority and therefore the External Auditor cannot issue a separate Certificate of Completion in respect of the Pension Accounts. The

Pension Fund Accounts can only receive a Certificate of Completion once the External Auditor has completed all their work on the whole of the Administering Authority Accounts and all their work on Value For Money Arrangements.

- 3.64 This resulted in questions and observations from both Employee and Employer representatives on the Board. Officers further explained that the Scheme Advisory Board had been seeking separation of Pension Fund Accounts in England from those of the (remainder of) their Administering Authority but that although the Local Government Minister had indicated his support the change requires Legislation which has not yet been forthcoming. It is noteworthy that it was not until 30 April 2024 the External Auditor issued a Certificate of Completion covering the 2022-23 Pension Fund Accounts, the (other) Accounts of the Wirral MBC, and the Value for Money review. Given the position regarding the Pension Fund Accounts as at 27 September 2023 I would suggest that if the Pension Fund Accounts could have been approved separately by the External Auditor, then they may well have been approved well ahead of the statutory deadline for publishing the 2022-23 Pension Fund Annual Report and Accounts which was 1 December 2023. If this had been the case the Annual Report could have been issued with approved rather than draft Accounts.
- 3.65 The present situation regarding Pension Fund Accounts in England is causing a number of significant issues which are burdensome to both LGPS Funds and individual Employers. As the Scheme Advisory Board stated to DLUHC on 6 March 2024:
- 3.66 *“All LGPS pension funds are multi-employer schemes, with a typical single fund having over 200 different employers participating in the LGPS. Over 18,000 separate employers participate in the LGPS, and an increasing feature of the scheme is the extent to which almost two thirds of these employing bodies are commercial companies, not for-profit entities and academy schools/Multi-academy trusts, rather than local authorities. These employing bodies are subject to a wide range of different financial reporting frameworks which all require that LGPS pension liabilities should be recognized.”*
- 3.67 *Where the pension fund audit has not been signed off simply due to the delay in clearing the administering authority’s audit, then the auditor of the scheme employers’ accounts will need to do additional work to gain assurance that the pension liability figures that have been provided by the pension fund to the employer can be relied on. Any uncertainty over the value of the pension liabilities may be material to a scheme employer, depending on a range of factors particular to that employer. This is avoidable and unnecessary additional cost for the employer as well as being a significant additional administrative burden for the pension fund in responding to queries and requests for information from the scheme employer’s auditor.”*
- 3.68 As far back as August 2022 the Chair of the Scheme Advisory Board (SAB) wrote to the Minister responsible for the LGPS to urge that the Government separate the Pension Fund Annual Accounts in England from those of their

Administering Authority as had already happened in both England and Wales. Consequently, in February 2023 the Minister sent a response stating that DLUHC was actively considering the SAB recommendation to completely separate the Pension Fund Annual Accounts of English LGPS Funds. As at March 2024 there had however been no progress in respect of the separating of Pension Fund Accounts from those of their Administering Authority. On 6 March 2024 SAB again raised this issue by issuing a formal response to the DLUHC Consultation “**Addressing the local audit backlog in England.**” However, by the time the General Election was announced, on 22 May 2024, DLUHC had made no announcement regarding the separation of Pension Fund Accounts from those of their Administering Authority. This is a matter of urgency and importance, and it is to be hoped the new Government takes rapid action to resolve this easily resolvable issue.

3.69 **LGPS Investment Related Consultations**

3.70 The 20 June 2023 Meeting the Board received a report from the Director of Pensions that reminded the Board that there were a number of investment related issues where a Consultation was anticipated from DLUHC. This included the future development of Investment Pooling, which had been awaited since 2019.

3.71 On 11 July 2023, the DLUHC issued a Consultation “**Local Government Pension Scheme (England and Wales): Next steps on Investments.**” The period for responses to the Consultation closed on 2 October 2023. The Consultation included the long awaited Government proposals on the further development of Investment Pooling.

3.72 The Consultation also included proposals relating to four other issues:

- Levelling Up
- Private Equity
- Investment Consultancy Services to the LGPS
- Definition of Investments

3.73 The Merseyside Pension Fund has incorporated into the Terms of Reference of the Pension Board that the role of the Independent Chair includes providing comment and input in respect of Government Consultations. In respect of the above Consultation there were positive interactions between myself and the Director of Pensions which began well ahead of the submission of the final draft to the Pensions Committee and the Pensions Board.

3.74 The Merseyside Fund’s draft final response was presented to the Pension Board on 27 September 2023. This resulted in significant observations and comments from Board Members. The Pension Board was concerned about any Government initiated (forced) merger of Pools. The Board was also concerned by the active encouragement in the Consultation for LGPS Funds to invest in venture capital. Investment decision making should primarily be determined by the circumstances of each individual LGPS Fund.

- 3.75 At the Board Meeting on 27 March 2024 a report by the Director of Pensions included a copy of the Northern LGPS Pool response to the Consultation and also a summary of the **Consultation outcome** issued by DLUHC on 22 November 2023. As stated in the Director of Pensions Report the measures the Government proposed to adopt included to *“revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation”* Based on his discussions with DLUHC the Director of Pensions further commented in his report that *“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.”*
- 3.76 As at the time the General Election was called, on 22 May 2024, DLUHC had issued no Regulations or Statutory Guidance to implement the Investment Pooling arrangements detailed in the **Consultation outcome**. With regard to the approach of the new Government to Investment Pooling I would repeat the statement I made in my 2022-23 Review when I stated *“In my view investment Pooling should not result in any dilution of the ultimate decision making role of Elected Members nor should it reduce the consultative role of Scheme members. The Northern LGPS Pool proves that investment Pooling can be effectively implemented while maintaining both the full and proper sovereignty of Elected Members, and also genuinely meaningful Scheme member representatives involvement. This model of Pool governance is, I suggest, exemplary...”*
- 3.77 **Merseyside Pension Fund Investment Issues**
- 3.78 Under its Terms of Reference, the Pension Board has no role in investment decision making which is in accordance with the role of the Board as set out in the LGPS Regulations. However, in line with the LGPS Regulations, the Board has a clear role in reviewing governance and operational arrangements relating to any activity including the investment activity of the Fund. As indicated in the section of this Review above entitled **“Working Party (IMWP/GRWP) Minutes”** an ongoing mechanism for the Board to examine the governance and operational arrangements relating to Investment matters is through consideration of the Investment Monitoring Working Party (IMWP) minutes and attendance at the IMWP.
- 3.79 Also as already indicated in this report, the Board was pleased, as in previous years, to receive written updates on Investment Pooling/the Northern LGPS Pool and for the opportunity to ask questions of the Director of Pensions and make to constructive observations on this important issue.
- 3.80 At the December 2023 meeting a report on the **Revised Investment Strategy** was presented to the Board which contained the Fund’s new Investment Strategy and Strategic Asset Allocation (SAA). This is an early element of the Fund’s overall Investment Change Programme. The revised SAA is intended to assist the Fund in maintaining a full funding position, reducing risk, and

achieving investment returns consistent with the actuarial assumptions. There was clear evidence available to the Board that the new Investment Strategy and SAA had been carefully developed and considered and that there had been extensive debate with the Pensions Committee (which Board Members could also participate in) as evidenced by IMWP Minutes. Given however the nature and extent of the changes to and resultant from the new SAA there were challenging but constructive observations and questions to the Director of Pensions from Employee representatives, Employer representatives and the Independent Chair. In addition, a Board Member raised a query regarding the risks of modern slavery occurring in supply chains. Officers confirmed that this is an important consideration in the Fund's Responsible Investment approach. Also, on behalf of LAPFF (which includes the Merseyside Fund) PIRC are engaging with a range of businesses on this matter. Modern slavery is an issue of genuine concern to the Board, and we urge the Fund to do all it can to counter this scourge.

- 3.81 As part of its ongoing development of Investment which includes appropriate consideration and incorporation of Responsible Investment the Fund has been considering the creation of an additional Pension Committee Member led Working Party – the **“Responsible Investment Working Party” (RIWP)**. This will increase the capacity for consideration of Responsible Investment issues. Consequently, a report **Establishment of Working Party** was presented to the December 2023 Board meeting. While Board Members were very supportive of this development the Board sought, and received, assurance from the Director of Pensions that the RIWP would enhance but in no circumstances override the considerations of the Investment Monitoring Working Party.
- 3.82 The December Board meeting also received an **Update on the Catalyst Fund**. This report updated the Board on the Catalyst Fund which seeks to support development and refurbishment projects in Merseyside while (crucially) providing a commercial return for the Merseyside Pension Fund. The report contained details of a range of local investments. The Board Members emphasised their support for investments which provide commercial returns, but which are also local, and provide very clear social and/or environmental benefits.
- 3.83 **Training and Development, and the MPF Annual Employers Conference**
- 3.84 Sufficient and effective Training and Development are clearly essential for Board Members to properly discharge their responsibilities. Furthermore, knowledge and understanding/skills are specifically required of Pension Board Members by the Public Service Pensions Act 2013. The Board's Terms of Reference also include requirements and guidance in this respect.
- 3.85 At the 20 June 2023 Board Meeting the Director of Pensions presented a report **Members Learning and Development Programme**. This both reminded Board Members of their statutory learning and development responsibilities and provided a detailed update on developments relating to CIPFA Pensions Knowledge and Skills guidance and the Merseyside Fund response to this.

- 3.86 The LGPS Online Learning Academy (LOLA) developed by Hymans Robertson was made available to all Members of the Pension Board during 2023-24 as in 2022-23. This provides a helpful broad overview of the LGPS. This programme is a very useful specific LGPS introduction/update/reminder. However, I would stress that completion and updating of LOLA is additional to and not an alternative to attendance at Working Party/external training events.
- 3.87 As in previous years, some Members of the Pension Board attended the Elected Member led Merseyside Pension Fund Investment Management Working Party (IMWP) and the Governance and Risk Working Party (GRWP) during March 2023 and 2023-24. Both these bodies, which are also attended by Fund Officers and Advisors, receive detailed papers, and actively consider a broad range of issues across Fund Governance, Risk, Pensions Administration, and Investment. Attendance at these Working Parties is an excellent opportunity for Board Members to further develop their knowledge and understanding of both the LGPS in general and especially the Merseyside Pension Fund in particular. Pension Board Members are invited to the new Responsible Investment Working Party (RIWP) which provides another valuable opportunity for training and development, in addition to participation in the considerations of the Merseyside Pension Fund.
- 3.88 The **Merseyside Pension Fund Annual Employers Conference** held on 16 November 2023 provided an important training and development opportunity for both Employers and those Pension Board Members who were able to attend. This included broad ranging updates and briefings from senior Fund Officers across Governance, Investment, Administration (including Cyber security and the Digital Transformation Programme). I was pleased to provide a briefing on the activity of the Board and also on LGPS developments including emphasising the crucial role of Employers in working proactively with the Fund to implement the "McCloud" remedy. The Conference also included three extremely informative presentations from the Fund Actuary (including an update on the Funding position), Ted Frith the Chief Operating Officer of GLIL the Infrastructure vehicle partly owned and controlled by the Merseyside Pension Fund, and Jeremy Hughes the Deputy Secretary of SAB who provided a briefing on the Scheme Advisory Board and its wide ranging activity. I would strongly urge all Board Members to attend, if at all possible, the November 2024 Employers Conference.
- 3.89 During 2023-24 Board Members also attended a range of external training events. I am grateful to those Members who attended the LGA Fundamentals training and provided constructive feedback, at the December 2023 Board meeting, suggesting improvements.
- 3.90 The quarterly LGPS Update reports, presented at each Board meeting, are also very useful to Board Members in helping to fulfil their knowledge and understanding obligations as these are focussed on both national developments which relate specifically to the LGPS (for example the LGPS Cost Control Mechanism) and wider pension related developments as they affect the LGPS

(for example Annual and Lifetime Allowance Changes). Those Board Members who attended Fund Working Party meetings during March 2023 and 2023-24 also obtained knowledge and understanding in respect of Investment, Administration and Governance issues with a particular focus on the Merseyside Fund.

3.91 Reporting Breaches of the Law to the Pensions Regulator

3.92 The Pension Board does not itself have decision making powers. In respect of the Reporting of Breaches of the Law to the Pensions Regulator (TPR) the Administering Authority has determined (Pensions Committee of 16 November 2015) that the Board should be consulted by Officers when considering whether or not to report a specific breach (or likely breach) to TPR. This is a significant role granted to the Board in terms of ensuring the good governance of the Fund and appropriate interpretation of TPR guidance and the Merseyside Fund’s policy on reporting Breaches of the Law.

3.93 During the period covered by this report there were no occasions when the Board was asked to give their view as to whether or not a Breach of the Law should be reported to the Pensions Regulator (TPR) or alternatively recorded in the Breaches Log. There were no occasions when the Board, or any Member, believed that they themselves needed to directly report any Breach to TPR.

3.94 Recommendations made to the Scheme Manager (Pensions Committee)

3.95 There were no formal recommendations made by the Board to the Pensions Committee during 2022-23 The Minutes of each Pension Board are however included on the Agenda of the Pensions Committee and these, of course, include coverage of notable Board discussions and Resolutions passed by the Board.

3.96 Pension Board Review 2022-23 and presentation to the Pensions Committee

3.97 The Pension Board Review 2022-23 and Work Plan 2023-24 was considered and approved by the Board on 20 June 2023. This was then considered by the Pensions Committee at its meeting held on 26 September 2023 which I attended in person.

3.98 Pension Board Costs of Operation 1 April 2023 to 31 March 2024

Conferences	£ 3,082
Travel & Subsistence	£ 1,342
Allowances	£ 20,995
Total	£ 25,419

3.99 Proposed Pension Board Work Plan 2024-25

3.100 The proposed Work Plan for 2024-25 is detailed below and has been prepared jointly by the Director of Pensions and Independent Chair. This maintains an overall emphasis on Fund Governance. Pensions Administration will remain a particular area of focus given that this is an area of direct relevance to both Employers and individual Employees. Investment Pooling will also be an area of focus given this represents a fundamental change to and development of the Governance of the LGPS. The Work Plan will be updated as necessary during 2024-25.

Agenda item	09/07/2024	24/09/2024	10/12/2024	18/03/2025
Risk Register	YES	YES	YES	YES
Pensions Administration Report	YES	YES	YES	YES
Working Party (IMWP/GRWP/RIWP) Minutes	YES	YES	YES	YES
Investment Pooling/Northern LGPS Pool Update	YES	YES	YES	YES
LGPS Update	YES	YES	YES	YES
Pension Board Review 2023-24 & Plan 2024-25	YES			
External Audit Plan 2023-24	YES			
External Audit Questionnaire & Responses 2023-24	YES			
Pension Fund Outturn 2023-24 & Budget 2024-25	YES			
Member Learning & Development Programme	YES			
Responsible Investment Policy	YES			
(External) Audit Findings Report 2023-24		YES		
Internal Audit Annual Report 2023-24		YES		
Benchmarking Report (by CEM)		YES		
LGPS Consultation? /Outcome?		YES		
Net Zero Targets		YES		
Good Governance (in the LGPS) Project			YES	
TCFD Reporting			YES	
Fund Annual Report & Accounts 2023-24			YES	
Revised Investment Strategy Statement			YES	

Compliance Manual			YES	
Pension Fund Budget 2025-26				YES
Treasury Management Policy and Report				YES
Catalyst Fund update				YES
Property Write Offs/Pension Overpayments				YES

3.101 Conclusion and Going Forward – the Merseyside Pension Fund and the development of the LGPS in 2024-2025 and beyond.

3.102 The Merseyside Pension Fund operates within the overall regulatory/governance framework as defined in the LGPS Regulations, associated Statutory Guidance and other overriding legislation and recommended principles of best practice. Reports and presentations made to the Pension Board in 2023-2024 very clearly indicate, as they did in previous years, that the Merseyside Pension Fund (MPF) understands and takes very seriously its present obligations. This is pleasing to report.

3.103 There is no doubt that the new Government will continue to propose changes to the LGPS. In particular it is to be hoped that any new Pooling Guidance will enable the further development of the Northern LGPS Pool (of Merseyside, West Yorkshire, and Greater Manchester) in its present form which has so positively progressed investment pooling and achieved cost savings while also operating a governance framework which ensures that ultimate decision making truly rests with Elected Members (as it absolutely should) together with meaningful representation of the Employees (through the Trade Unions) as the LGPS only exists to provide benefits the individual members of the Scheme.

3.104 It is to be hoped that the new Government will finally introduce mandatory Climate Risk Reporting into the LGPS. It is however pleasing to note (as I did last year) that *“each Administering authority within the Northern LGPS has voluntarily reported under the TCFD framework.”* I would (again) also wish to place on record my own personal endorsement of the Merseyside/Northern LGPS view as to the need to genuinely consider and incorporate (to use LAPFF’s words) the *“social risks associated with the transition”* and (to use SAB’s words) *“to support a just transition.”*

3.105 A simple, long overdue, but highly advantageous change that the new Government could easily make is to wholly separate the Accounts of LGPS Funds in England from those of their Administering Authority. It is to be hoped that this will be an early action of the new Government.

3.106 The LGPS is becoming ever larger and more complex in terms of its Governance, Funding, Administration, and Investment functions. In this context additional resourcing will inevitably continue be required to ensure that the Fund can continue to offer a good level of service to both Employers and individual

members of the Scheme going forward. The issue of appropriate resourcing and in particular in relation to recruitment and retention was an area of particular focus for the Board in 2023-24 and will, in support of the Pensions Committee, all Employers, and individual Scheme members, continue to be in 2024-25.

- 3.107 In this respect I would urge the Administering Authority to carefully consider the Terms and Conditions and in particular the remuneration of posts from that of the Director of Pensions and right across and throughout all the functions of the Merseyside Pension Fund. Where appropriate the Board would urge that (pensionable) “market supplements” are applied to salaries.

John Raisin
Independent Chair
Merseyside (Wirral) LGPS Local Pension Board

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are none directly arising from this report.

5.0 LEGAL IMPLICATIONS

- 5.1 Section 12.3 of the present Terms of Reference of the Local Pension Board of the Merseyside Fund states that *The Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Scheme Manager. The contents of this annual report will be subject to consideration and agreement at a meeting of the Board...*

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.0 There are none directly arising from this report. The Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the performance of Fund’s administration function.

7.0 RELEVANT RISKS

- 7.1 A failure to provide the Board with information on legislative and statutory changes in the LGPS could hinder the Board in the discharge of its activities.

8.0 ENGAGEMENT/CONSULTATION

- 8.0 The Director of Pensions and Head of Pensions Administration were consulted in the preparation of 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 none directly arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: JOHN RAISIN
Independent Chair
Merseyside (Wirral) Local Pension Board
20 June 2024

APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

The Public Service Pensions Act 2013

LGPS Regulations 2013 (As amended)

LGPS (Management and Investment of Funds) Regulations 2016

Guidance on the Creation and Operation of Local Pension Boards in England and Wales, (LGPS) Scheme Advisory Board, 2015

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section 12.3 of the Board's Terms of Reference:

The Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Scheme Manager. The contents of this annual report will be subject to consideration and agreement at a meeting of the Board, but should include as a minimum:

- a. Details of the attendance of members of the Board at meetings,
- b. Details of the training and development activities provided for members of the board and attendance at such activities;
- c. Details of any recommendations made by the Board to the Scheme Manager and the Scheme Manager's response to those recommendations;
- d. Details of the costs incurred in the operation of the Board

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Local Pension Board review	26.9.23
Local Pension Board review	28.9.22



PENSIONS COMMITTEE

9 DECEMBER 2024

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME CONSULTATION: FIT FOR THE FUTURE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with details of a consultation recently instigated by the Ministry of Housing, Communities and Local Government in relation to the investments of the Local Government Pension Scheme (LGPS).

RECOMMENDATION/S

That the Pensions Committee be recommended to:

1. note the report and the implications of the consultation on MPF and the Northern LGPS.
2. to authorise the Director of Pensions, in consultation with party spokespersons, to respond to the consultation on behalf of Merseyside Pension Fund.
3. to authorise the Director of Pensions, in consultation with party spokespersons, to work with the Northern LGPS (NLGPS) Investment Pool to prepare a report by 1 March setting out how NLGPS proposes to deliver the requirement for an FCA regulated investment manager.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 The consultation has been issued for a period of nine weeks with a closing date of 15 January 2025. In view of the constrained timeline, there has not been an opportunity to prepare a response for this Committee. The consultation has been on the agenda at recent Fund events which has given Members the opportunity to be informed of the potential implications.

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

- 3.1 At this Committee in September, the Director of Pensions tabled a report informing Members of the landmark pensions review launched by the Chancellor on 4 September.
- 3.2 Following the Chancellor's Mansion House speech, an interim report of the Pensions Investment Review was issued together with consultations on proposals for changes within Defined Contribution pensions and Local Government Pension Scheme (LGPS) the Local Government Pension Scheme (LGPS). A summary of the proposals contained in the 'Fit for the future' consultation are set out below and a copy of the consultation is attached as an appendix to this report.
- 3.3 The consultation seeks views on proposals to strengthen the management of LGPS investments in three areas:
- 3.4 Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:
- Administering Authorities (AA) would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;
 - Pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
 - AAs would be required to transfer legacy assets to the management of the pool.
- 3.4 Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:
- Set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities:

- To work with local authorities, Combine Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities;
 - To set out their local investment and its impact in their annual reports.
- 3.5 Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.
- 3.6 Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review.
- Committee members would be required to have appropriate knowledge and skills;
 - AAs would be required to publish a governance and training policy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
 - Pool boards would be required to include representatives of their shareholders and to improve transparency.
- 3.7 In addition to considering the proposals in the consultation, asset pools, working with their partner AAs, are invited to submit a separate proposal, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted. Government is proposing an indicative timeline to move to the new model of March 2026.
- 3.8 Each pool is invited to demonstrate a clear path to meeting the requirements outlined in the consultation document. In their reports, pools will be expected to provide clear evidence that they are able to capture the advantages of managing assets at a very large scale. Proposals are expected to be submitted by 1 March 2025.
- 3.9 Members attending recent events such as the Annual Employers Conference and the Northern LGPS stakeholder day have received presentations on the consultation and an opportunity to consider and discuss the potential implications.
- 3.10 The timelines for responses to the consultation and the establishment of a new pooling model are very stretching and officers are already developing and evaluating options in order for Members to assess the most appropriate course of action for MPF and for the Northern LGPS.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Until a course of action is approved by Committee, the financial implications are unknown. The costs of establishing an FCA regulated entity will be material. Equally, the costs of transitioning assets to pooled funds within an FCA regulated entity will also be very considerable. Government have indicated that these requirements will be legislated and therefore MPF will need to realign its arrangements accordingly.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority's solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.
- 5.2 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 None arising directly from this report. The pool changes will have a direct effect on the majority of the Fund's internal investment team.

7.0 RELEVANT RISKS

- 7.1 There are none arising directly from this report. Further consolidation of LGPS funds and pools may materially increase operational and governance demands across the scheme.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The terms of reference of the Government's pension review confirms the intent to "consult widely" and will seek views from "employers, trade unions, the pensions industry, financial services, local government and consumer voices".

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG 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 There are none arising directly from this report. The consultation indicates that responsible investment policy will remain with LGPS funds but investment stewardship will be a pool responsibility.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none directly arising from this report.

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APPENDIX

LGPS consultation: Fit for the future: <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future>

BACKGROUND PAPERS

HM Treasury, DWP and MHCLG

<https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence>/<https://www.gov.uk/government/publications/pensions-investment-review-interim-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

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PENSIONS COMMITTEE

9 DECEMBER 2024

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

REPORT SUMMARY

This report provides an overview of the Government's budget announcement on 30th October and the associated impact on stakeholders of the Local Government Pension Scheme.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to 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 Pension Committee of legislative developments.

3.0 BACKGROUND INFORMATION

3.1 Autumn Budget 2024

- 3.2 The Chancellor, Rachel Reeves, used the new Government's first budget to raise £40 billion in extra taxes each year. Despite widespread speculation that there would be several changes to pensions tax relief, only a single measure was announced, specifying that unspent defined contribution pension pots including death grants would form part of a person's estate for inheritance tax purposes from 6 April 2027.

3.3 Inheritance Tax & Death Grants

- 3.4 The LGPS regulations allow for the payment of the following death grants on the death of a member:

- Death in service - three times assumed pensionable pay.
- Death in deferment – five times pension that would have been payable.
- Death of a pensioner aged under 75 - balance of ten years' pension guarantee.

- 3.5 The recipient of the death grant is at the complete discretion of the administering authority which places the death grant outside of consideration for inheritance tax.

- 3.6 There are a small number of public sector pension schemes that are non-discretionary with regard to the payment of death grants, specifically the NHS Pension Scheme and the Judicial Pension Scheme, where the death benefits are treated as part of an individual's estate and are subject to inheritance tax.

3.7 Policy Proposal

- 3.8 The Government is proposing to remove the distinction between discretionary and non-discretionary schemes so that all death benefits and unused defined contribution pension pots will form part of the deceased member's estate and will be liable for inheritance tax from April 2027.

- 3.9 Whilst dependant pensions will not be impacted, lump sums payable on the death of a member, where the recipient is not the spouse or civil partner, could result in a 40% charge on these benefits where estates are above the inheritance tax threshold.

- 3.10 Government Consultation on the Operational Impacts for LGPS stakeholders**
- 3.11 The Government has published a consultation on the technical aspects of how pension scheme administrators will report and pay any inheritance tax due on unused pension funds and death benefits.
- 3.12 The consultation is limited to the implementation of the new tax regime rather than whether to implement it and what benefits should be in scope. A link to the document is provided below under the Background Papers section.
- 3.13 Under the proposals, it will be the responsibility of the deceased's personal representative to obtain the value of certain death benefits payable from any former pension arrangements.
- 3.14 The personal representative will then calculate whether inheritance tax is due on the member's estate, using an HMRC online calculator. Where inheritance tax is due, the personal representative must provide details to the relevant pension schemes. It will be for pension administrators to calculate the tax due, deduct it and pay it across to HMRC, before paying the death grant to the appropriate beneficiary.
- 3.15 The removal of the discretionary provision for schemes to discharge death grants, will limit the scope currently afforded to members of the LGPS to set out their preferences in advance as to who will receive payment of any death grant. However, any removal of Fund discretion will simultaneously remove the ability for disgruntled individuals to invoke the formal Internal Dispute Resolution Procedure.
- 3.16 LGPS Assets and the New Investment Fiscal Rule**
- 3.17 The budget also confirmed the introduction of the "Investment Rule" which targets a reduction in net financial debt by changing the measure of public debt from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL) to achieve the government's fiscal target of greater investment into the economy to stimulate growth.
- 3.18 This broader definition of public debt includes assets and liabilities held by funded public sector pension schemes, which predominately relate to the LGPS.
- 3.19 The main reason for adopting PSNFL is to provide extra borrowing headroom for the Chancellor, but it is likely that including the LGPS assets and liabilities in the metric will lead to increased scrutiny on the Scheme's health, as this may fundamentally impact on the Government's ability to borrow and invest into the economy.
- 3.20 It is noteworthy that whilst the change in the public debt measurement brings the LGPS into scope, the LGPS assets and liabilities were already included in the 'Whole of Government Accounts'.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The decision to include unused pension pots and death grants into the value of a person's estate for inheritance tax purposes is based on the government estimate

that during the year 2027/28 - 49,000 estates will face an inheritance tax bill; 10,500 estates that would not have been subject to inheritance tax if pensions were excluded, and 38,500 estates will be paying more inheritance tax than would previously have been the case.

- 4.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator (tPR).

5.0 LEGAL IMPLICATIONS

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

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The inclusion of pension pots within the estate for inheritance tax purposes will require LGPS Funds to communicate with members about the changes and overhaul administrative processes.

7.0 RELEVANT RISKS

- 7.1 As the payment deadline for inheritance tax is six months after the end of the month in which the death occurs, and obtaining grant of probate can be a protected process, administrators will have a relatively short and challenging timescale to discharge death grants and make payments to HMRC with a material risk of incurring late payment interest.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The Government has launched a consultation on inheritance tax, pensions liability, reporting and payment with a closing date of 22 January 2025

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG 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

<https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment>.

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
Standing Agenda Item	24 September 2024

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PENSIONS COMMITTEE

9 DECEMBER 2024

REPORT TITLE:	PENSIONS INVESTMENT REVIEW: CALL FOR EVIDENCE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report informs Members of a pensions review, launched by the Chancellor, with the objective of boosting investment, increasing saver returns and tackling waste in the pensions system.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report and that the Director of Pensions in consultation with the Chair be authorised to approve a response to the call for evidence on behalf of the Fund and with the directors of Greater Manchester and West Yorkshire pension Funds on behalf of the Northern LGPS Investment Pool.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 The review specifies that the Local Government Pension Scheme (LGPS) falls within the scope of the review. There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in its capacity as Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

- 3.1 On 4 September, the Chancellor launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution (DC) workplace schemes and the Local Government Pension Scheme.
- 3.2 In its initial stages the review will be considering evidence on a range of questions including those listed below. These are intended to guide government's stakeholder engagement with more targeted questions being considered with particular stakeholder groups. The review intends to engage extensively with stakeholders via meetings and workshops but would also welcome written submissions from relevant organisations and individuals on these topics.
- 3.3 The call for evidence notes that asset pooling policy in the Local Government Pension Scheme in England & Wales was consulted on in 2023. This was the "LGPS next steps on investment consultation" to which MPF responded in October 2023. In addition to the request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions. With regard to investing in the UK, the questions set out below are applied to both DC and LGPS funds, and where relevant stakeholders should feel free to make submissions focused solely on the LGPS or solely on DC. Apart from the LGPS, the rest of the defined benefit market is out of scope of this review.
- 3.4 **Scale and consolidation**
1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?
 2. What should the role of Single Employer Trusts be in a more consolidated future DC market?

3. What should the relative role of master trusts and group personal pensions (GPPs) be in the future pensions landscape? How do the roles and responsibilities of trustees and independent governance committees (IGCs) compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?
4. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?
5. To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

3.5 Costs vs value

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?
2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

3.6 Investing in the UK

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?
2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?
3. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

- 3.7 The call for evidence was only issued on 4 September and closes on 25 September. It is intended to be discussed at the Investment Monitoring Working Party on 18 September and the Director will provide a verbal update at Pensions Committee outlining the principal considerations of the proposed response.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Proposed LGPS consolidation as part of the 'Government Landmark Pension Review' to further reduce fees, may result in changes to government's view of pool size and accelerated pooling of mandates if progress is not made by March 2025.
- 4.2 The Government's Pension review is intended to unlock at pace the £360 billion investment potential of the LGPS in UK-based "productive assets".
- 4.3 The Scheme Advisory Board's decision to not recommend any changes to the benefit structure following the scheme cost assessment, provides a known position for the Fund's actuary as he prepares for the upcoming triennial 2025 valuation.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority's solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.
- 5.2 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The proposal to separate the pension fund from the host authority's audit may open the market for more specialist external audit firms to engage on pension fund accounts. This has the potential to improve the quality of pension audits and for providing better value for money and cost savings.
- 6.2 The separation of the audit exercise will have a positive impact on the timely publication of pension fund accounts and pension fund annual reports with the latest documented evidence that 80% of Scottish and Welsh funds managed to publish audited pension fund accounts on or before 1st December 2021, whilst in England only 17% of audited pension fund annual reports were published by the same date.

7.0 RELEVANT RISKS

- 7.1 There is a material risk that further consolidation of LGPS funds and pools may significantly increase operational and governance demands across the scheme.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The terms of reference of the Government's pension review confirms the intent to "consult widely" and will seek views from "employers, trade unions, the pensions industry, financial services, local government and consumer voices".

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG 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 There are none arising directly from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none directly arising from this report.

REPORT AUTHOR: Peter Wallach
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BACKGROUND PAPERS

HM Treasury, DWP and MHCLG

<https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence/>

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

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HM Treasury
Pensions Review Team

Our Ref: MPF/PJW

Your Ref:

Direct Line:

Please ask for: Peter Wallach

Date: 25 September 2024

Dear Pensions Review Team

Pensions Investment Review: Call for Evidence

I set out below Merseyside Pension Fund's response to the call for evidence. Responses have been limited to those questions relevant to the LGPS and to the Fund's experience.

Merseyside Pension Fund and the Northern LGPS Pool

MPF is the 6th largest fund in the LGPS in England & Wales. As at 31 March 2024 MPF had assets of nearly £11bn, over 200 participating employers and around 150,000 scheme members.

MPF is part of the c£61bn Northern LGPS Pool ('NLGPS') alongside Greater Manchester Pension Fund and West Yorkshire Pension Fund. The NLGPS governance model reflects the scale of the individual underlying partner funds and the sizeable and experienced internal investment teams at each of the funds. The Pool shares the combined resources of the funds to research and monitor investments, whilst investing collectively in asset classes where there is clear overlap using pool vehicles such as GLIL (a c£4bn open ended fund investing in direct UK Infrastructure, which has been developed collaboratively with the LPP pool) and NPEP – a company created by NLGPS to make collective private equity investments, including lower cost co-investment.

Scale and consolidation

To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

The introduction of asset pooling was a significant change in the structure of the LGPS and it has been delivered successfully by the Northern LGPS Pool (NLGPS) in accordance with the government's criteria.

Continued...

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Pooling has provided the opportunity for all LGPS funds to have access to asset classes that they may have been precluded from primarily due to limited resources, expertise and scale. A broader asset choice should aid diversification and risk management. However, as these asset classes relate primarily to private market investments which are characteristically longer-term in nature, it is arguably too soon to assess their influence on long-term risk adjusted returns.

As one of the largest funds in the LGPS, prior to the advent of pooling, MPF was already investing in a wide range of asset classes with significant exposure to the UK. Due to the existing scale of the three NLGPS partner funds, the vast majority of the benefits of pooling are in respect of private market assets which tend to carry heavier investment fees. Membership of Northern LGPS pool has given MPF the scope to generate further economies of scale and to share resources to make increasingly direct investments. The Pool has established vehicles making collective investments in private market assets, in particular infrastructure and private equity. MPF has £500m in GLIL, a direct infrastructure vehicle predominately invested in core UK infrastructure - [Home - Glii](#)

MPF has committed £590m to NPEP, a collective private equity vehicle, which has enabled MPF to significantly increase its participation in co-investments which bring a significantly lower fee load. - [Northern Private Equity Pool LP Holdings | Northern LGPS](#).

MPF invests individually as well as collectively with its partner funds into UK housing. To date £108m has been invested in UK housing and assisted living through the Fund's investment programme and further £164m through its commercial loan book. These figures do not include a recent sale of land (£62m) to a housebuilder following MPF gaining planning approval for the construction of 635 dwellings. NLGPS' net cost savings to 31 March 2024 are calculated to be £216.5m, the majority of which derive from the GLIL direct infrastructure vehicle.

Costs vs Value

Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

The primary focus of the LGPS has been on fiduciary duty and achieving the best net of fees, risk-adjusted returns. We are not aware that LGPS funds are constrained by investment budgets notional or otherwise although the cost disclosure initiative has ensured a focus on driving down investment costs.

Continued...

Investing in the UK

What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

MPF's experience with GLIL suggests that collaboration between LGPS pools and funds is much quicker to achieve and can be as effective as consolidation in increasing investment in UK infrastructure. GLIL has delivered the additional benefit of attracting investment from NEST as well as capital from the six funds of the two pools which established it. GLIL has operated at an all-in-cost of less than 0.3% p.a. which is considerably less than the typical infrastructure fund.

An emphasis on value rather than costs may be helpful in moving the focus from costs to net of fee returns as private market investment tend to have materially higher investment costs. Risk-adjusted investment returns, net of fees, is a very important consideration for MPF when undertaking due diligence on investment opportunities. As is typical of many LGPS funds and pools, MPF has significant investments in UK assets (including local investments). In our experience, the limiting factor for local investment is more to do with the availability of assets of a suitable quality and less to do with costs although smaller scale projects generally bring a heavier fee load and greater demands on resourcing.

MPF's involvement in the NLGPS Pool has enabled us to introduce co-investment into the private equity portfolio and cease making any fund-of-funds investments, both of which have reduced manager fees.

It is rather difficult to assess the likely impact of increased investment in the UK by UK pension funds on UK economic growth, particularly as businesses' operations have become increasingly international. Investing domestically would ameliorate the risk arising from fluctuations in sterling against other international currencies. There is likely to be a positive effect from an increased capital allocation to the UK provided investment returns are comparable to those achieved from investing more overseas.

What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

The movement away from the UK is driven by the investment principle of diversification, as well as gaining exposure to a wider opportunity set, rather than a particular view on the UK. There is considerable pressure to invest in global benchmark weights for risk and performance purposes. Given the US is the dominant geographical weight in any global benchmark, investing globally will naturally reduce the capital allocated for investment in other countries including the UK. MPF has traditionally been a big supporter of the UK and continues to overweight its allocation to the UK compared to the global benchmark

Continued...

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MPF allocates its assets in order to achieve the most appropriate risk adjusted returns taking account of its liability profile, liquidity requirements and membership demographic. As the table below demonstrates, well over 40% of MPF's capital is committed to UK assets. As the investment returns from UK public market assets have lagged those of overseas markets for a number of years, and there is little evidence to suggest that this will change, strategically, MPF is likely to continue increasing its exposure to international markets at the expense of domestic assets.

The average annual growth from 1999 to 2024 for the FTSE All share was 7.73%, and the FTSE All-World was 11.62%. Over the 25 year period, this compounds to 227.23% against 476.18%

The table below details Merseyside Pension Fund's investments in the United Kingdom. The values include the value of undrawn commitments.

Table 1 (bid valuation basis)

£m Asset values as at 31 March 2024	Total
UK Listed Equities	1,400
UK Government Bonds	1,321
UK Infrastructure	733
UK Property	875
UK Private Equity	190
UK Private Debt	74
Total	4,592

Source: Northern Trust

It is also worth noting that the UK is not alone in experiencing a diminution in domestic investment. Investment in domestic markets has fallen in all the major pension countries from 67.1% in 2002 to 37.7% in 2022. The domestic allocation in the UK is above the average of the other countries.

- 1. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?**

The purpose of the LGPS is to provide pensions to members at a stable and affordable cost to employers. In the absence of any direction to the contrary, LGPS funds have a fiduciary duty to adopt the strategic asset allocation they deem will provide the best long-term return for an appropriate level of risk. Whilst past performance is no guide to the future, based on historic returns, it would be difficult for those charged with governance to favour investing in the UK relative

Continued...

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to overseas without clear financial reasons to do so. MPF would not support proposals which impinged on the exercise by Members of their fiduciary duty.

When making large, long-term, capital investments, it is very helpful if there is policy certainty and/or Government guarantees as there is competition for MPF's investment capital across a range of asset classes and geographies.

Notwithstanding this, as set out in the previous question, MPF has significant investments in the UK and these include some substantial investments contributing to regeneration and growth in the Merseyside region. In 2016, with the agreement of its Pensions Committee, MPF launched the Catalyst fund with the intention of stimulating and identifying investment opportunities in the region. <https://www.merseysidecatalystfund.org/>

The investments are principally through debt financing which enables projects to be completed and the capital recycled into new opportunities. Currently, MPF has advanced around £100m to finance regional projects and an additional £20m to a fund providing finance to SMEs. These regional projects include the construction of the Mersey Heat [district heat network](#), the regeneration of warehousing into residential accommodation and various industrial/mixed use investments. Because MPF was able to provide Mersey Heat with flexible financing terms on a patient capital basis, this supported the project team to navigate complex challenges over its development and construction phase.

MPF has felt able to implement this strategy within its fiduciary duty. A common issue of local investments is the small scale and often lower quality counterparts involved. Support and incentives to make local projects more viable would be helpful in increasing the availability of investible opportunities. Government entities taking first-loss positions or providing attractive tax benefits for UK investments would be examples. Similarly, incentives to stimulate the building of housing, industrial estates and commercial buildings by releasing government owned land/brownfield at a reasonable cost and streamlining and simplifying the planning process to enable local building projects to be started promptly, would aid decision-making.

In addition to its local investments, MPF has a current commercial loan book of around £250m in financing to 10 UK projects. An example of the types and purpose of these loans is provided in the Gravity Loan case study (page 29) cited in the PLSA's [Pensions & Growth: Creating a pipeline of investable UK opportunities](#) report.

Included in MPF's Private Equity Portfolio is £122m committed to UK Venture and Growth investment opportunities. This includes our investment in the Government-backed [Clean Growth Fund](#), which contributes to MPF's climate solutions goal and has the potential to catalyse significant positive real-world climate impacts.

Another example of MPF working with our Northern LGPS partners on local investment is [Northern Gritstone](#), an investment fund established with the assistance of the Universities of Manchester, Leeds and Sheffield with the dual purpose of supporting the commercialisation of science and IP-rich businesses

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originating from these institutions alongside funding the development of similar businesses based across the North of England. MPF is working with the Northern Gritstone team to support the inclusion of organisations in Liverpool City Region in this growing investment eco-system.

We are very supportive of the concept of the National Wealth Fund (NWF), particularly the intention for investors to be able to participate on a project by project basis. If the NWF is able to bring investors together to undertake projects that historically have been too large or long-term for many institutional investors and, at the same time, mitigate the risks of early-stage venture or unproven technologies, we believe it will have an excellent opportunity to catalyse the aggregation of capital from investors such as MPF.

Yours sincerely

A handwritten signature in black ink that reads "P Wallach". The letters are cursive and fluid.

Peter Wallach
Director of Pensions



PENSIONS COMMITTEE

9 DECEMBER 2024

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

REPORT SUMMARY

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

RECOMMENDATION/S

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

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

4.0 FINANCIAL IMPLICATIONS

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

5.0 LEGAL IMPLICATIONS

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

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

- 6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS

The Public Service Pensions Act 2013

CIPFA: the guide for local pension boards

TERMS OF REFERENCE

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

- (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

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

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LOCAL PENSION BOARD

Tuesday, 24 September 2024

Present: J Raisin (Chair)

P Fieldsend	P Moloney
D Ridland	S Van Arendsen
R Irvine	I Williams

Apologies R Dawson

16 WELCOME AND INTRODUCTION

The Chair welcomed everyone to the meeting.

17 APOLOGIES

Apologies had been received from Robin Dawson.

18 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

There were no declarations of interests.

19 MINUTES

Resolved – That the minutes of the meeting held on 9th July 2024 be approved and adopted as a correct record.

20 GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND

The Head of Pensions (Finance and Risk) presented the report of the Director of Pensions which highlighted the key findings and other matters arising from Grant Thorntons external audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2024.

It was reported that Grant Thornton had identified one adjustment which had resulted in a £0.015m adjustment to the Pension Fund's reported financial position and a small number of changes made to disclosures. The board were informed of the findings of the IT audit following the migration from the One Business system to Oracle Fusion.

Members were given assurances that the Pension Fund were not expecting any further changes to be made upon completion of the outstanding actions.

Resolved – That the report provided by the external auditor, Grant Thornton, be noted.

21 **MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2023/24 AND LETTER OF REPRESENTATION**

The Head of Pensions (Finance and Risk) presented the report of the Director of Pensions which provided Members with a copy of reports to be presented to the Pensions Committee in September 2024; namely the Annual Report & Accounts for Merseyside Pension Fund for 2023/24 and a letter of representation prepared by Officers on behalf of the Committee.

The purpose of the Statement of Audited Accounts was to present the overall financial position of the Pension Fund as of 31 March 2024 in accordance with prescribed guidance and the Head of Pensions reported that there was a statutory requirement for the Fund to produce and publish an annual report by 1 December 2024.

In response to a query, the Director of Pensions reported that the Fund had a substantial property that was receiving rent, however, the tenants had vacated the premises at the end of 2023 and there had been no rent received for 12 months which was why the property rental income had fallen but operating expenses increased.

Resolved – That the report be noted.

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

The Head of Pensions Administration introduced the report of the Director of Pensions which provided board members with a copy of the LGPS update report that was presented at the September meeting of the Pensions Committee. Members of the board were advised of the new governments legislative programme and proposed bills such as the National Wealth Fund and how they could impact the Pension Fund.

Board members raised concerns about the Government Landmark Pension Review and the actions relating to pooling and fund mergers and whether this would apply to the Merseyside Pension Fund (MPF) and were advised that the outcome was uncertain but relative to many other LGPS funds, MPF was large enough to make it sustainable on its own.

Resolved – That the report be noted.

23 PENSIONS ADMINISTRATION STRATEGY

The Head of Pensions Administration introduced the report of the Director of Pensions which provided Board members with a copy of the Pensions Administration Strategy (PAS) report which was to be reported to the September meeting of the Pensions Committee. The PAS had been updated to reflect the transition from annual to monthly data submissions and developments in the automation of exchanging data.

In response to Board members queries regarding how payment is received from employers in cases where they have been charged for administration, the Head of Pensions Administration outlined that officers work with employers to support them with any issues in the first instance however if the issue was to persist then MPF would invoice for the charges.

Resolved – That the report be noted.

24 MERSEYSIDE PENSION FUND BUDGET OUT-TURN 2023/24 AND FINAL BUDGET 2024/25

The Head of Pensions (Finance and Risk) introduced the report of the Director of Pensions which provided board members with a copy of the Pension Fund budget report that was presented at the July meeting of the Pensions Committee.

It was reported that the actual outturn for 2023/24 was £19.1m, which was lower than the original budget approved 11 July 2023 of £21.3m. The underspend could largely be attributed to lower investment management fees, planned projects and areas of work being deferred to 2024/25, and the assumptions used for staffing. The budget for 2024/25 was higher at £22.7m than £21.3m in 2023/24 primarily due to higher investment management fees and increased staffing costs being forecast.

In response to queries about staffing assumptions, the Board were advised that there were two grade G vacancies with a recruitment process ongoing and that there was the intention to strengthen the investment team but that this was not yet underway.

Resolved – That the out-turn for 2023/24 and the approved finalised budget for 2024/25 be noted.

25 **LETTER FROM MINISTER**

The Director of Pensions introduced the report which provided Board Members with a copy of the letter received from the former Minister of the Department for Levelling Up, Housing and Communities in relation to efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds and the Fund's response.

The Chair placed on record his thanks to the Director of Pensions for noting in the Funds response the work of the Local Pension Board.

Resolved – That the letter and the Fund's response be noted.

26 **MERSEYSIDE PENSION FUND CONFLICT OF INTEREST POLICY**

The Head of Pensions (Finance and Risk) introduced the report which provided Board members with a copy of the report to be presented to the September meeting of the Pensions Committee which sought approval of a Conflict-of-Interest Policy for Merseyside Pension Fund.

The policy set out a process for identifying, monitoring and managing Conflicts-of-Interest and included a code of conduct and guidance on to whom the policy applied.

The Board recognised the importance of this report and expressed appreciation for the efforts made by officers to implement further elements of the long awaited good governance report.

Resolved – That the report be noted.

27 **NORTHERN LGPS UPDATE**

The Director of Pensions introduced the report which provided Board members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS.

The Chair reminded Board members that a stakeholder day had been rescheduled for Friday 22nd November and advised that all Board members were welcome to attend.

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

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

The Chief Internal Auditor introduced the report which summarised the work undertaken by the internal audit service in relation to the Fund. The report complied with the service level agreement between internal audit and the Pension Fund and was based on a risk assessment basis that included consideration of the sensitivity and complexity of all risks identified. Client requests, systems being developed, and the availability of resources were other factors also considered during the year.

The Chief Internal Auditor provided assurance that the Merseyside Pension Fund had maintained a positive position which reflected the work undertaken by officers at the Fund. The Board were informed that the plan would be kept under constant review to ensure any emerging risks were accommodated.

Resolved – that the presentation and report be noted.

29 **NET ZERO INVESTMENT TARGETS**

The Director of Pensions introduced the report which provided Board members with a copy of the report taken to the previous Pensions Committee regarding shorter-term net zero investment targets for Merseyside Pension Fund (MPF) in accordance with its longer-term goal for the Fund's assets to be net zero by 2050.

The Director of Pensions outlined three recommendations to the Board, the first was a proposal to achieve a 50% reduction of the carbon footprint by 2030, the second was to maintain alignment with the Paris agreement and the third was for investment in climate solutions.

Resolved – That the report be noted.

30 **MINUTES OF WORKING PARTY MEETINGS**

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

Resolved – That the minutes be noted.

31 **PENSION ADMINISTRATION MONITORING REPORT**

The Head of Pensions Administration introduced the report of the Director of Pensions which provided the Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team between 1 April 2024 to 30 June 2024.

The Board were advised that the LGA had issued two separate Pension Dashboard guides with the connection guidance setting out areas for administering authorities to focus their dashboards preparations and were informed that Fund officers had commenced the workstream to create a project plan to connect to the dashboard system.

The Board were provided with an update on the cyber security and that work had been undertaken with Wirral IT to develop a cyber security governance document.

Resolved – That the report and exempt appendix be noted.

32 **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

33 **RISK REGISTER**

Resolved - That the report and the exempt appendix be noted.



PENSIONS COMMITTEE

9 DECEMBER 2024

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

REPORT SUMMARY

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

RECOMMENDATION/S

That the Pensions Committee be recommended to approve 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 approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

3.0 BACKGROUND INFORMATION

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

4.0 FINANCIAL IMPLICATIONS

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

5.0 LEGAL IMPLICATIONS

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

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

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

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

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APPENDICES

Appendix: Working Party minutes/Responsible Investment/Stewardship reports.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

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

(a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance of the Fund.

SUBJECT HISTORY (last 3 years)

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

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Minutes of IMWP Meeting held on 18th September 2024

Attendees

Name	Initials	Organisation
Councillor Brenda Hall (Chair)	BH	
Councillor Helen Cameron	HC	WBC
Councillor Chris Carubia	CC	WBC
Councillor Pat Cleary	PC	WBC
Councillor George Davies	GD	WBC
Councillor Jeff Green (Vice Chair)	JG	WBC
Councillor Brian Kenny	BK	WBC
Councillor Christine Howard	CH	Sefton
Jill Davys	JD	Redington
Charlie Sheridan	CS	Redington
Paul Watson	PWa	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PW	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AAS	MPF
Emma Littler	EL	MPF
Daniel Proudfoot	DP	MPF
Adil Manzoor	AM	MPF
Neil Gill	NG	MPF
Roksana Klapkowska	RK	MPF
Allister Goulding	AG	MPF
Ciaran Sharp	CS	MPF
Joseph Hull	JH	MPF
Roksana Klapkowska	RK	MPF

1. Apologies

Councillor Ann Ainsworth

Councillor Martin Bond

2. Minutes of IMWP 5th June 2024

Noted, no amendments.

3. Market Commentary – Rohan Worrall (RW)

Most equity markets have done well over the quarter. Global PMI that is a forward-looking economic indicator suggests that the growth should continue in the next few months. Inflation has been in decline, with core inflation closer to the target line, but elevated CPI due to price increases in services. The performance in equities has been led by the US, mostly due to the outperformance of growth stocks (particularly the Magnificent 7). In the UK market value stocks are a bigger component of the index. MPF's portfolio is also biased towards value.

Bond yields have been going up and so the bond prices were going down.

GBP was fairly stable in the last 3 -12 months. Yen is weak due to its short selling yen caused by low interest rates in Japan.

Commodities performed well over the last 12 months, especially silver and gold as since the invasion of Ukraine, central banks are buying gold to diversify their reserves.

In terms of the future outlook, growth looks firm, core inflation is under control, with interest rates in most developed countries expected to continue to come down moderately. Issues that will be destabilising the market include the US election, as both candidates have very strong views, for example, the USA may leave NATO in case of Trump's victory. In France the elected government is very polarised and both sides plan high spending. With the French budget deficit already high, there will be political pressures from EU to curb it, which may impact the Euro. China seems to be in stagnation. Risk reduction and staying close to the benchmark are recommended.

Q&A

It was asked whether the speculation about the elections may impact the market. RW confirmed and highlighted that whoever will be the president will probably not have a strong mandate so may not be able to pass legislation, especially if Trump loses, he might still seek to have influence. The USD is already starting to weaken.

I was noted that Japanese equities were lower and that China's entering stagnation must be dangerous for the world's economy. RW explained that the West has shrinking population so it's harder to generate growth and in China peak population is declining so it's also going to be harder to generate growth. PW added that governments will have to increase spending, resulting in higher inflation components. Potential deflation in China would help to mitigate inflationary pressures in the west. In higher inflation real assets perform better as they store value. Equities may not perform as well but still better than fixed income.

Japan's aging population and how it's affecting the yen was discussed. RW replied that Japan is a very experimental case as it has aging population but with

high saving rates contrary to the US, so Japanese are able to finance themselves.

4. MPF Monitoring Report – Peter Wallach (PW)

PW informed MPF has terminated the Newton and Unigestion mandates, but there are still some portfolios flagged as underperforming. The Fund continues to reallocate money from equities into bonds (as per the SAA changes), resulting in relatively high level of cash earning an attractive level of interest.

Q&A

It was asked whether divestment resulted in the overall number of mandates coming down. PW confirmed that MPF continues to reduce the number of equity mandates and will gradually increase fixed income exposure.

RW asked whether there is a factor exposure that explains some of the underperformance of some of the mandates. PW explained that it provides some explanation but there are some anomalies as, for example, the UK passive is flagged red which should not be the case as it should perform in line with the market; but there is some volatility due to its ESG tilts.

The underperformance of infrastructure was questioned. AM explained that allocation to infrastructure is 10% and involves 2 strategies (direct and indirect infrastructure). Direct is allocated to GLIL and the balance are global funds invested in the UK, US, Europe. The benchmark is inflation linked and with the very high inflation over the last couple of years, it was underperforming. Once the inflation normalises, the performance should stabilise.

It was asked whether the Fund should be worried about the direction in which the policy is going with an emphasis on investing in greenfield infrastructure. AM explained that the Fund's strategy reflects its risk appetite. The fund is fully funded but cash flow negative, so it is tilted towards brownfield operating assets rather than greenfield.

In reply to a follow-on question as to when the infrastructure portfolio is expected to start performing, AM replied that hopefully in the next couple of years, once the benchmark comes down, we should be closer to it. PW added that looking at the returns since pre-covid, the infrastructure portfolio had returned 4% every year whereas bonds that were deemed to be much safer returned -2%.

5. Strategy Update and Investment Workplan– Jill Davys (JD) and Charlie Sheridan (CS)

JD presented key metrics over the quarter; no significant changes. In terms of the Pension Risk Management Framework, red flags relate to liquidity and cash flow, which is like other LGPS that see a reduction in cash coming in. CAA didn't change much over the quarter. With respect to the implementation update the

Fund has gone through the equity change programme and working with Redington to reduce the risk of the portfolio, as well as optimise it to consider ESG ambitions. MPF is currently going through the fixed income change programme with the next element of the programme relating to private markets.

Charlie Sheridan introduced the private markets change programme, compared liquid and illiquid assets and their characteristics. Discussed private credit, equity, property, infrastructure, natural capital, hedge funds.

CS moved on to the fixed income Change Programme. A material increase in fixed income planned, a higher number of mandates, diversification to more global exposures. Increase exposure to leveraged loans, high yield, ABS, diversifying the type of credit. Explained the different types of credit and risks associated with them. Fixed income will be used to drive the reduction in emissions as well. Majority with of the fixed income portfolio will be actively managed.

Q&A

Clarification was sought whether when Funds are relatively well-funded and overfunded, but MPF is cash flow negative, the funding would continue to shrink. JD explained that LGPS remains an open scheme. There were some significant reductions in number of employees over the last 15 years but that has now stabilised. It's much more gradual process for LGPS than for other schemes.

It was asked how pooling relates to this. JD said that pooling is more about the economies of scale and the consolidation of funds is currently rather difficult and not many funds have merged.

In relation to an inquiry about the next actuarial review, PW advised it's in March 2025. JD and PW explained the principal assumptions in the actuary valuation and implications of the pooling of assets.

When asked whether investments in emerging markets would be in the liquid or illiquid bucket, CS replied they can be found in both, but mostly liquid.

Clarification was also sought on the nature of debt investments and liquidity. JD explained the difference between public and private markets debt and discussed the risk profiles of liquid and illiquid assets. Regarding the instances when the fund would choose senior and when junior debt, CS explained it depends on the risk appetite and market environment. PWA and RW further explained the characteristics of junior and senior debt.

Regarding an inquiry whether the fund has any investments in natural capital, PW replied there is an aspiration but no investment yet.

In relation to debt, a question was asked whether, with the Government involved in housing and housing associations being countercyclical and relatively safe, is that a direction the Fund would be considering. JD clarified that's not something the Fund is looking at and that there is a broader opportunity set related to equity in housing.

It was noted that the slides about natural capital talked about achieving climate objectives and noted this would be difficult to measure and asked whether that would be measured and, if so, how. CS replied that Redington is monitoring the net zero targets set up in July using a climate framework in terms of emissions and alignment. The Fund uses S&P Trucost which provides climate metrics on annual basis. OT added that measuring natural capital is complex, but we would take climate metrics from S&P and TNFD. They can measure the impact and materiality.

In relation to a question as to how the fund is going to measure the level of positive environmental impact, CS explained it's led by the investment strategy survey which indicated a desire to increase this, noting that the Fund's objective is an aspiration to increase this. OT added that the pension committee approved the climate target solutions which included the determination of the quantum of investment related to the positive ESG impact, but it's also important where we allocate this capital.

RW asked whether there is a common factor in the decreased fundraising in the private markets and whether the opportunity set is shrinking. CS replied he will get back on that, but considering the trend there was a spike in 2021/2022 post Covid.

PWa asked about the weights within the fixed income. CS explained Redington don't look at fixed in isolation so there are no specific weights assigned to sub-classes.

RW noted that with switching from equities to fixed income, it needs to work harder to generate the desired returns and that's why new sources of fixed income are being introduced. CS agreed.

The reduction of fees resulting from bringing some mandates in-house was discussed. JD explained how the fees work and where the potential reduction comes from. PW added that more complex strategies would still be outsourced, but the Fund can optimise by moving some things in-house.

RW asked about the confidence in the reliability of the expected returns figures. CS replied that Redington has a team specialised in that and they rely on the data from the market. As always, caution should be exercised with respect to any predictions, but Redington can share their analysis if requested.

6. Pensions investment review – Peter Wallach (PW)

The Chancellor had announced there will be a review of pensions, mentioned in the King's speech. In September a call for evidence has been issued and needs to be submitted before 25th. PW discussed the general questions. MPF in its response will focus on the infrastructure and private equity funds pooled under GLIL and NPEP. That enables the delivery of lower fees as result of the scale. MPF has invested in the UK housing already. With respect to the costs versus value issue, MPF's view is that collaboration delivers the same benefits as

consolidation. Regarding questions around investing in the UK, MPF has around half of its assets in the UK (as well as the Catalyst and commercial loan book) which, in terms of equities has been sub-optimal relative to returns from other international markets. MPF would welcome incentives for investing in the UK.

RIWP 30th October 2024

Name	Initials	Organisation
Councillor Brenda Hall (Chair)	BH	WBC
Councillor Ann Ainsworth	AA	WBC
Councillor Helen Cameron	HC	WBC
Councillor Chris Carubia	CC	WBC
Councillor Pat Cleary	PC	WBC
Councillor Jeff Green	JG	WBC
Councillor Brian Kenny	BK	WBC
Councillor Ruth Molyneux	RM	WBC
Councillor Christine Howard	CHo	Sefton
Colin Hughes	CHu	WBC
Peter Jewell	PJ	WBC
Donna Ridland	DR	Pension Board
Paul Lee	PL	Redington
Edina Molinar	EM	Redington
Jill Davys	JD	Redington
Paul Watson	PWt	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PWI	MPF
Allister Goulding	AG	MPF
Owen Thorne	OT	MPF
Greg Campbell	GC	MPF
Alex Abela-Stevenson	AAS	MPF
Roksana Klapkowska	RK	MPF
Emma Littler	EL	MPF
Ciaran Sharp	CS	MPF
Dragos Serbanica	DS	MPF
Dan Proudfoot	DP	MPF
Neil Gill	NG	MPF
Kian Gheissari	KG	SSGA
Carlo Maximilian Funk	CMF	SSGA

1. Welcome, Introduction & Apologies

Apologies
Cllr. George Davies WBC

2. SSGA Sustainable Stewardship Service - SSGA

Kian Gheissari and Carlo Maximilian Funk from SSGA presented. The purpose of the presentation was to give insight into SSGA's expanding stewardship offering and sustainable investing research capabilities. The presentation included:

- Sustainable stewardship service: overview
- Proposed timeline and milestones
- Expanding sustainable investing research

Additional context was requested to better understand SSGA, their goals, and client ambitions for those considering the service. In response, SSGA outlined their extensive assets under management (AUM) and highlighted their ambitious client targets, particularly in Europe.

A question was raised regarding the services cost structure, with the response clarifying that fees would be approximately \$15,000, though pooled funds would incur no charge.

Further clarification was sought on the opt-in process and rationale behind developing the service. SSGA confirmed that the Fund will incur no financial cost to use the service and may opt-out at any time. The service was developed in response to strong market demand and client feedback and is expected to go live in 2025.

An enquiry was made about client onboarding and progress in recruitment. SSGA confirmed that many clients have shown interest and are expected to formalise their participation very soon. In terms of recruitment, the team has so far made two hires and is actively recruiting a team head.

3. Climate Reporting (TCFD): Redington

Edina Molinar from Redington presented. The purpose of the presentation was to provide an initial training for the Fund on the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, following the Fund's approval of recent interim net zero targets and development of the Fund's reporting in line with the Stewardship Code. The presentation included:

- Understanding climate as a financial risk
- Understanding the TCFD framework
- Possible next steps for the Fund
- What are other schemes doing?

A question was raised about the effectiveness of climate scenario analysis in managing risk for the Fund. The response emphasised the value of exploring multiple outcomes, given the growing likelihood that the Paris Agreement's 1.5°C target may not be met.

A comment questioned the implications of the investment committee setting a specific climate objective, as a portfolio designed for a 3°C world would differ significantly from one aligned with a 1.5°C target. The response indicated that the modelling is intended as a tool to identify potential outcomes, nonetheless, underscoring the need for realistic belief statements and financial objectives.

There was broad support for climate scenario analysis, with multiple comments highlighting its value in prudently assessing both financial and climate risks.

4. Update on Investment in Defence Companies: MPF/Redington

Peter Wallach from MPF presented. The purpose was to provide members with an update on investment in defence companies, fiduciary duty, and guidance in relation to the LGPS. The presentation included:

- Investments in defence companies and key considerations for members
- Approaches to exclusion and levers of action
- Mechanisms for engagement
- Exercise of judgment in relation to exclusion
- Scope of policy – precedent setting
- Recent guidance and legal opinion
- Why is the Israel / Gaza conflict different to Ukraine / Russia over divestment
- Costs and performance
- Options

A question was raised about merging previously provided ESG data with financial performance metrics for a list of defence companies to assess whether current investments in these companies could be redirected elsewhere. The response confirmed that this integration of information would be feasible.

A request was also made for a brief report evaluating aerospace & defence employment across the Wirral and Merseyside area, with a focus on assessing potential impact of divestment on local employment. The responder agreed to review this request and explore potential approaches.

There was also support for organising a workshop to discuss these topics in greater detail.

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Minutes of the Governance and Risk Working Party, 10.00, Wednesday 14 November 2024.

Microsoft Teams meeting.

Present:

Name	Initials	Organisation
Councillor Brenda Hall (Chair)	BH	WBC
Councillor Christopher Carubia	CC	WBC
Councillor Ann Ainsworth	AA	WBC
Councillor Helen Cameron	HC	WBC
Councillor Chris Carubia	CC	WBC
Councillor Pat Cleary	PC	WBC
Councillor George Davies	GD	WBC
Councillor Jeff Green	JG	WBC
Councillor Christine Howard	CH	Sefton MBS
Councillor Brian Kenny	BK	WBC
Councillor Sue Powell-Wilde	SPW	WBC
Peter Wallach	PW	Director of Pensions
Adil Manzoor	AM	Head of Pensions (Private Markets)
Donna Smith	DS	Head of Pensions (Finance & Risk)
Guy Hayton	GH	Senior Manager of Operations & Information Governance
Mark Niblock	MN	Chief Internal Auditor

Apologies were received from:

Name	Initials	Organisation
Councillor Ruth Molyneux	RM	WBC
Yvonne Murphy	YM	Head of Pensions Administration

In attendance: Emma Littler.

1. Approval of Minutes & Introduction

Minutes of GRWP, Wednesday 4 April 2024, were reported to Pensions Committee and have been approved.

PW introduced the meeting and advised that ahead of the Chancellor's Mansion House speech this evening, the government has issued a press release and PW also had the opportunity of a briefing from MHCLG yesterday afternoon. This is to be followed by two consultations. PW to advise on what these will entail in due course.

PW briefed members on the proposals and highlighted what the potential implications may be.

- PW to share a link to the government's website with members.

Questions

A question was raised as to whether pension funds will move away from local Pensions Committee.

PW replied it seems that there is no immediate proposal for LGPS funds to merge and the changes to the LGPS will be more prescriptive in relation to investments: -

- The responsibilities for the Fund will remain with the administering authority along with liabilities and strategic asset allocation.
- The implementation of Fund's strategic asset allocation will be delegated to the Pool.
- Pensions Committees will retain their responsibilities for pensions administration.

PW advised there will be more structure to the arrangements and advised on how the consultation suggests responsibilities could be allocated.

Action points

Noted.

2. Declarations of Interest

BH reported that declarations of interest are taken as already notified; there were no new declarations stated.

Action points

Noted.

3. Annual internal audit report

MN presented the Annual Internal Audit Report and reported that it complies with current best professional practices and summarises the work undertaken by the Internal Audit Service delivered to the Fund.

MN outlined the salient points from the report and invited questions from the floor.

Questions

MN was asked if he could explain some of the minor recommendations, what the timeframe is and whether they have been accepted.

MN advised all the recommendations included within the report were completed over a twelve-month period but were relatively minor in nature. They were all subject to a very specific time scale and have been fully implemented.

Although there are no outstanding issues remaining if there were they would be escalated to Officers and through the Audit Risk Management Committee, where MN reports on a quarterly basis.

DS added that Officers have to follow up on the audits recommendations and engage with Internal Audit and provide evidence that the recommendations have been implemented.

Two questions were asked in relation to the timing of audits Contributions Income and IT Security/Business Continuity

MN advised that there are various factors that that are considered when compiling the audit plan and the allocation of time and resources. GH added that in relation to the Contributions Income – Scheme Employers the Internal Audit team have been visiting other employers within the scheme to see how they allocate contributions and checking that the Fund is receiving the correct amount of money.

GH advised arrangements in relation to the IT Security/Business Continuity noting that cyber security is very important and a Cyber Governance Policy has been devised and approval will be sought from Pensions Committee next year.

GH listed a number of the measures in place and that further control were anticipated when the Pension and Payroll system contract is renewed.

Action Points

- A Security Business Continuity Audit prior to any kind of migration which would effectively bookend the project of the migration.
- Consider that there are sufficient controls in place prior to starting the work and then checking and reviewing it afterwards.

4. Pensions Dashboard

GH presented an overview of the Pensions Dashboard and advised members on some of its key features and how it will enable individuals to securely access their pensions information online.

The Pensions Dashboard will provide clear and simple information about an individual's multiple pension savings, including their state pension and this will replace the Pensions Tracing Service which has not been very effective.

Questions

A question was raised with regard to exemptions. GH advised that it may be extensions rather than exemptions and explained that some closed schemes in the defined benefit are asking for extensions because they cannot meet the timescale due to 'old' computer systems and more time is needed so that these systems can be connected to the Internet.

A question was raised about how the information is retained. GH advised that all information will be encrypted and it will be passed along as a token but the information will not be stored and only expressed on the screen. The responsibility will not lay with the Pension Fund but with GCHQ.

GH further advised it is a mandatory scheme and this is why legislation has been passed so that all pensions can be found in the same place.

- Links to the Pensions Dashboard will be available on the Fund's website.

Action Points

None.

5. Risk Register

PW presented and reported on the Risk Register and reported it is kept under active review. It is taken to the Pension Board on a quarterly basis and is reviewed by officers regularly at the Fund. PW advised it is a standing item at the monthly FOG (Fund Operating Group) and is also brought to Pensions Committee.

PW advised that as the report sets out there is a revised score on Risk 8 and a new risk (Risk 22) has been added. Changes have been highlighted in red.

Questions

It was asked if Government plans for the LGPS will enhance the risk around staff retention going forward.

PW answered that to a large degree it is limited to investment staff and will not affect the majority of staff at the Fund, i.e. pensions administration and the majority of the finance staff. As the requirement will be for an FCA regulated entity it may require staff to work in a different location and some staff may choose not to move.

However, the new arrangements may help to reduce the disparity with some of the existing pools.

Following a discussion around the risk of the Fund's investments lagging liabilities, and mitigants, it was agreed that officers would review the risk score.

Action Points

- The Risk Register to be reformatted so that all items can be seen clearly.
- Circulated to members.

6. Risk Policy

PW presented the Risk Policy report and advised that a Risk Policy, bespoke to the Pension Fund, but based on Wirral's risk policy in terms of its scoring matrix, had been prepared.

The draft Risk Policy is contained with the GRWP Pack. PW covered the salient details contained within the policy.

Action Points

None.

7. CMA Objectives

AM presented the CMA Objectives and advised it is a legal requirement to set the objectives for the investment advisor and review the performance of the investment advisor against those objectives on a twelve-month basis.

Towards the end of Quarter 1 this year, at the beginning of Q2, a comprehensive review of the objectives was undertaken.

AM advised that although the advisor met most of the Fund's expectations there were some areas which require further improvement and objectives for 2024 were agreed, which will be reviewed in 2025.

Contained with the report is: -

- The summary of the 2023 review.
- A brief overview of 2024 which contains the objectives.

- The appendix includes a full list of the Fund's objectives which have been agreed with the investment advisor.

AM asked Members to note the review undertaken and endorse the objectives for 2024.

Questions

There were a number of questions and comments about the objectives and the way in which they are monitored and measured.

AM clarified how the objectives are recording and outlined the RAG rating system.

Action Points

To report to Members the specifics of how the CMA objectives are reported and how they are monitored by the Fund.

8. Training update

PW reported on the Training Update and advised this is brought on a quarterly basis and has two purposes as it is required for the Fund's Annual Report and to reflect to Members what training they have undertaken.

PW noted the LGPS Online Learning Academy (LOLA) update was contained in the pack.

Questions

A discussion arose as to whether prompts could be sent to members with regard to LOLA training. GH advised members that reminders are sent out periodically, at least four times a year, and this will continue and offers support on LOLA, when and if needed.

Fundamentals Training was discussed and it was agreed that officers would reassess the effectiveness of the training for the cost and time involved.

Action Points

- Amend the attendance record to show that it was Cllr. Jeff Green who attended the LGC Investment & Pension Summit on the 11 September 2024 not Cllr. Pat Cleary.
- Fundamental Training to be reviewed.
- Clarify training options advice for Members.
- In house training options to be considered for Members.

9. Administration KPI report

GH presented the Administration KPI report which was contained within the GRWP Pack. GH advised members on its content and highlighted areas such as the production of the Annual Benefit Statements, training provided by the Fund to

members and the Pensions Awareness Week. GH advised that it should also provide Members the reassurance that we are in a good position to supply information to the Pensions Dashboard.

Questions

A question was raised with regard to potential charges, fees and financial penalties in relation to additional work undertaken by the Fund for employers.

GH clarified the way in which the Fund levies costs and fees and the scope for bulk calculations to be provided to employers.

Action Points

None.

Date of Next Meeting – TBC.

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PENSIONS COMMITTEE

09 DECEMBER 2024

REPORT TITLE:	CATALYST FUND UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with an update on the progress of the Catalyst Fund's local investment activities.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Catalyst Fund aims to support development and refurbishment projects in the Merseyside area that are additive to the regeneration of the Liverpool City Region, align with the economic plans for the area whilst producing a commercial return for the Fund.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report as elected members have requested regular updates on the Fund's local investments.

3.0 BACKGROUND INFORMATION

- 3.1 The Catalyst Fund was established in 2016 with the strategy of supporting development and refurbishment projects in the Merseyside area with the aim to create jobs, promote BREEAM excellent space, brownfield regeneration and environmental measures, contributing to the improvement of the region whilst delivering a commercial return in line with the Fund's target return.
- 3.2 The Fund seeks returns commensurate with its broader strategies. However, it is recognised that local investments can bring a greater degree of risk in terms of counterparties, contractors and project scale. The Fund can invest both via equity and debt; however, at inception it was assessed that market conditions were such that lending was preferred due to better risk adjusted returns and opportunities to recycle capital.
- 3.3 Catalyst Fund has committed to date over £170 million in 9 assets across direct real estate and infrastructure debt investments and indirectly via private equity fund exposure, diversified across sectors such as residential real estate, commercial real estate, industrial real estate, utilities and SMEs.
- 3.4 Currently, the Fund has five active positions, with over £130 million in commitments to the wider Merseyside region. Catalyst debt investments are typically for shorter term, from 18 months to 48 months with an individual investment range of £5 million to £60 million to ensure greater support for local projects. Please see below a summary of the Catalyst investment activity.

3.5 Summary of Committed Loans

Catalyst Assets	Asset Class	Risk Exposure	Sector	Commitment	Active
North Western Hotel Loan	Real Estate	Debt	Commercial	£ 18,700,000	N
Mersey Heat Limited	Infrastructure	Debt	Utilities	£ 20,000,000	Y
ILIAD (Greenville Street) Liverpool	Real Estate	Debt	Residential	£ 10,250,000	N
Wirral Waters	Infrastructure	Debt	Commercial	£ 8,360,397	N
Foresight Regional Investment Fund III	Private Equity	Equity	SME	£ 10,000,000	Y

Royal Albert Dock Liverpool	Real Estate	Debt	Commercial	£	27,162,500	Y
Legacie Liverpool	Real Estate	Debt	Residential	£	56,452,000	Y
Croft Redsun Self Storage	Real Estate	Debt	Industrial	£	5,340,000	N
X-Docks Widnes	Real Estate	Debt	Industrial	£	18,000,000	Y
Total				£	174,264,897	

3.6 Mersey Heat Network (District Heating)

3.7 In 2021, Catalyst Fund provided an unsecured corporate debt of £13.17 million to a district heating project. The project is being developed by Mersey Heat Ltd (a subsidiary of Peel Group). This investment will accelerate the delivery of an important regeneration project in the Liverpool City Region, as well as facilitate low carbon heat and energy in keeping with the UK Government's clean growth strategy. This project will be able to provide a district heating facility to around 9,000 homes and 4 million sq ft of commercial units.

3.8 District heating is the supply to multiple buildings of heating and hot water from a centralised generation source, typically Combined Heat & Power plant via insulated underground pipes. Buildings collectively served by the same central heating plant are widely developed and mostly implemented in Europe (specifically in the Nordics), although not largely implemented in the UK. Mersey Heat Ltd initially aimed to serve residential and commercial units in the Liverpool Waters area, but this project has the potential to expand to serve adjoining developments.

3.9 In 2022, MPF committed to funding the next phase of the Mersey Heat Network and increased the existing commitment to £20m. The loan is expected to be repaid in full by the end of Q2 2026, with a repayment schedule having already been agreed with the borrower.

3.10 Royal Albert Dock

3.11 In 2023, Merseyside Pension Fund (MPF) committed £27 million in senior loan to fund the acquisition and refurbishment of the Royal Albert Dock in Liverpool. The Borrower – General Projects aims to proactively manage the asset to improve occupancy and grow rents by investing in hard costs in fitting out vacant food and beverage, leisure, and office space and significantly increasing the marketing budget to achieve the full potential of the Albert Dock.

3.12 This project has been selected for the Catalyst Fund not only due to its iconic location but also due to its excellent ESG (Environmental, Social and Governance) credentials. The business plan focuses on improving the energy efficiency and performance ratings of the units. Social initiatives include free workspaces for local businesses, youth mentoring for pupils at local schools, using only local supply chains, and developing a programme of skills and training with lectures hosted at the Royal Albert Dock.

3.13 Those initiatives aim to promote the city on a global scale, making it an attractive location for businesses and tourists, consequently boosting local growth, job creation, and entrepreneurship.

3.14 **Legacie**

3.15 Another new addition to the Catalyst Fund was a senior loan of £ 56.5 million to fund the construction of five residential blocks in Liverpool's Baltic Triangle by Legacie. The development will create 633 high-quality residential units, with the majority pre-sold and secured with large deposits of around 33%. The project has strong ESG credentials incorporated into the design: air source heat pumps and MVHR systems (Mechanical Ventilation with Heat Recovery). High-quality amenities such as rooftop terraces, swimming pool, gym, sauna, and spa will position the development in the premium sector.

3.16 The Borrower has an extensive proven track record in Liverpool and across the UK, including the development of Hotel Indigo – a brand new boutique style hotel and Reliance House – the restoration of an Edwardian building located within Water Street.

3.17 This investment is forecasted to enhance the city's residential offering and provide attractive returns to MPF with the risk minimised thanks to the pre-sale of the units and high deposits.

3.18 The development will include a self-storage unit, a Starbucks Drive-Through unit, four trade counter units and two further industrial units.

3.19 **X-Docks Widnes**

3.20 A collaboration opportunity between MPF and Greater Manchester Pension Fund (GMPF) to provide a £36 million club development loan (split 50/50) to support the forward funding of a speculative development of a 550,000 sq ft warehouse unit in Widnes. The site is close to the M62, M56 and M57, and 10 minutes driving journey to Liverpool John Lennon Airport, and constitutes an established logistics location with low vacancy, high demand and benefits from the new "freeport" status, tax breaks, including stamp duty, business rates and capital expenditure relief.

3.21 Upon completion, the site is expected to create employment space for approximately 450 jobs. The site has close proximity to areas ranked in the UK's 10% most deprived areas, such as Netherley, Upton, Widnes and Speke.

3.22 The site will be developed to high environmental standards (EPC A, BREEAM Excellent, 20% reduction on embodied carbon vs. benchmark new build). The site will also contain a large solar array unit to generate 950 kWp.

3.23 **Foresight NW Regional Fund:**

3.24 Since inception of the local investment strategy and considering the inherently risky nature of small-scale local investments, the Fund invested in debt instruments favouring property backed investments. However, the Fund has been looking at ways of investing in regional Small and Medium Enterprises (SMEs), providing equity capital in order to help these viable local businesses grow with positive impact on the local economy and job creation.

- 3.25 In May 2021, MPF committed £10m to the Foresight Northwest Regional Investment Fund III enabling it to take equity stakes in local SMEs. The Foresight Regional Fund III held a first closing on 21 May 2021 with £66.33m of capital commitments. The Fund is focused on making investments in established, profitable, small cap companies with operations in the Northwest region of the UK.
- 3.26 To date, Foresight Investment Funds I and III created over 1,600 high-quality, sustainable jobs and supported c. 1,200 hospitals and institutions and invested a combined total of £10m in four companies across the Merseyside region to date, spanning sectors such as property maintenance, manufacturing, businesses services and healthcare.
- 3.27 **Northern Gritstone**
- 3.28 MPF committed £5m to Northern Gritstone (NG) which is involved in dialogue with University of Liverpool (UoL) to support its inclusion in this transformational strategy bringing targeted early stage capital to support the university spin out sector across northern England.
- 3.29 UoL identified as a critical partner in expanding the Liverpool City Region (LCR) knowledge economy and bringing in NG can deliver vital encouragement to the growth of the LCR innovation ecosystem. MPF kept the Combined Authority informed of its plans and shared information with them to the point that they are now considering direct investment in NG having identified synergies with the cornerstone LCR Knowledge Quarter development and with their support for the Lyvva Labs VC accelerator initiative.
- 3.30 **Completed Developments**
- 3.31 **Croft Red Sun Self Storage, Bromborough**
- 3.32 In August 2023, MPF has committed £5.34 million to Redsun Projects (the “Borrower”), to fund Phase 1 of a mixed-use development site in the Wirral, which provided an attractive risk adjusted return and significant local economic and social benefits, including significant employment space creation. The site was adjacent to Croft Retail Park in Bromborough – an established retail and leisure destination, with the development planned to include a self-storage unit, a Starbucks Drive-Through unit and four trade counter units.
- 3.33 In June 2024, the MPF received notification from the Borrower of its plans to pay down the drawn facility through funds raised by the disposal of the pre-sold unit, having called only 2% of the initial commitment facility.
- 3.34 **Wirral Waters**
- 3.35 In September 2020 MPF committed a £8.53 million unsecured corporate facility to Wirral Waters Finance Ltd which is a wholly owned subsidiary of Peel Holdings Land and Property (UK) Limited. This investment helped to accelerate the delivery of an important regeneration project in the City Region, facilitating creation of new employment space outside of Liverpool City Centre.

3.36 This commitment from the Catalyst Fund was used to fund a Grade A 30,000 sq ft office (Tower Road South) and a 70,000 sq ft light industrial Unit (MEA Park). The Development is part of the Mersey Waters Enterprise Zone, meaning Wirral Borough Council can retain 100% of the business rates generated by tenants at MEA Park and Tower Road South. There was also a £4.50 million Grant Funding in place for this project which was invested alongside the Fund's Loan. This funding was provided by the Liverpool City Region Combined Authority (£3.00 million in support of Tower Road South) and the Wirral Waters Investment Fund (£1.50 million in support of MEA Park).

3.37 This loan was repaid in full in Q2 2023.

3.38 Ropewalks (The Eight Building - Iliad) – Development Loan

3.39 Ropewalks was the first successful exit from the Catalyst Portfolio. The Fund had committed £10.25 million of senior debt to provide for the construction costs to deliver a 120-unit residential development at this 0.70-acre site in the Rope Walks area of Liverpool. This project was delivered by Iliad Group and created 12 jobs. The development is a 10-minute walk from Liverpool City Centre, Liverpool One and Liverpool Central Station.

3.40 The Project is now complete with 120 residential units (a mix of 1-, 2- and 3-bedroom apartments), 2,519 Sq. ft of commercial space (the long leasehold already pre-sold for £250k to Liverpool City Council) and 19 car parking spaces.

3.41 The Fund benefited from a first charge over the property and a full senior debt security package. The development was refinanced in November 2021 with the Fund receiving repayment of £11.45m, a strong return for this debt investment.

3.42 North Western Hotel:

3.43 North Western Hotel is another exit from the Catalyst Portfolio. The Fund had committed £19 million of senior debt to support the conversion and refurbishment of The North-Western Hotel. Originally built as a railway station hotel in 1871, it is located on the corner of Lime Street, adjacent to Liverpool Lime Street Station.

3.44 The Project is now complete with 202 rooms that have been pre-let to the Radisson Hotel Group and are operating under their Radisson Red brand. Thanks to this redevelopment 67 new jobs were created.

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. Guidance to the Local Government Pension Scheme (LGPS) Investment Regulations states that the pursuit of financial return should be the predominant concern but investment may be made into projects that deliver a social impact where administering authorities have good

reason to think scheme members share the concern for social impact and there is no risk of significant financial detriment to the Fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Local investments are often more resource intensive in the sourcing, structuring and ongoing monitoring of opportunities. Conducting very detailed due diligence and effective monitoring of the investments requires adequate staffing resources in place for a successful and effective roll out of the strategy.

7.0 RELEVANT RISKS

7.1 Local investments are inherently risky due to their direct nature, a more limited opportunity set and exposure to sometimes less financially credible, smaller-scale counterparties. Under or non-performance of one investment may have a significant influence on the overall performance of the portfolio.

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 The Fund has regard to the environmental, social and governance implications of the local investments which are made.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The Catalyst Portfolio directly supports economic growth of the region and its objectives cover local employment creation, regeneration, floor space and carbon savings all of which contribute towards collective community wealth enhancement.

REPORT AUTHORS:

Peter Wallach

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APPENDICES

There are no appendices to this report.

BACKGROUND PAPERS

Local Government Pension Scheme: Guidance on preparing and Maintaining an Investment Strategy Statement
Impact Investing Institute: Place based impact investing

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.	11 December 2023
Pensions Committee.	22 February 2022
Pensions Committee.	29 March 2021



PENSIONS COMMITTEE

9 DECEMBER 2024

REPORT TITLE:	UPDATE ON INVESTMENTS IN DEFENCE COMPANIES
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with a summary of deliberations at recent Responsible Investment Working Parties and Investment Monitoring Working Parties and recommends that Merseyside Pension Fund (MPF) should ensure that it does not hold investments in companies which manufacture weapons proscribed by international treaty to which the UK government is a signatory.

RECOMMENDATION/S

That the Pensions Committee be recommended to mandate to the effect that Merseyside Pension Fund should not hold investments in companies which manufacture weapons proscribed by international treaty to which the UK government is a signatory.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 Government guidance sets out that although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision. Having considered a range of exclusion scenarios, it is recognised that the diversity of opinion on this subject makes it very difficult for Members to have good reason to assume that scheme members would support a specific course of action other than that established by government. The most appropriate action, bearing in mind the various considerations discussed at the working parties and summarised in this report, is to be guided by government policy and advice.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Members reviewed a number of approaches adopted by other funds and index providers to assess whether there are market norms that MPF might consider. The analysis reveals a lack of consistency of approach even amongst peers and funds that use exclusion as one of their key levers and are considered by some to be particularly advanced in ethical investment thinking.

3.0 BACKGROUND INFORMATION

- 3.1 Over the past 12-18 months, MPF has been reviewing its responsible investment policy, its broader approach to Environmental, Social and Governance (ESG) factors and how to integrate good stewardship and engagement into the management of its assets, whilst maintaining its fiduciary responsibility to pay pensions.
- 3.2 Members will be aware that there has been a growing public campaign for MPF to divest from a range of companies in which it is invested which are deemed to be providing support for Israeli military activities in Gaza and other territories, in particular, and conflicts. Many but not all of these companies are categorised as in the 'Aerospace & Defence' sector. As of 25 November, 161 letters or emails had been received of which 119 were from local council taxpayers and 42 from members of MPF.
- 3.3 When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.
- 3.4 Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of

reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

- 3.5 The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise. Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision. "Support" is not defined in the case law but it could be interpreted as a reasonable belief that not less than 75 % of scheme members (properly informed of the relevant facts and their implications) would actively agree to the proposition. That belief would have to be supported by evidence if a moral consensus could not be reasonably presumed.
- 3.6 Engagement is an integral part of MPF's responsible asset ownership practices and is exercised principally through the Fund's external investment managers, membership of the Local Authority Pension Fund Forum (LAPFF) and membership of the Institutional Investor Group on Climate Change (IIGCC). Engagement is recognised as the most effective way of achieving change, but it is acknowledged that there will be instances where engagement is ineffective or not appropriate and an assessment may then be made as to the merits of retaining the investment or, if feasible, disposing of it. To this end, MPF has developed a framework approach to engagement which includes some broad principles around divestment. These are set out later in the report.
- 3.7 To test these principles, and by way of a case study, Redington prepared a paper considering what factors the Fund could take into account when thinking about its investments in defence companies. Whilst investments in defence companies have always had a level of controversy, this has been heightened over recent years by conflicts in Russia/Ukraine and Israel/Gaza. In general, investment funds labelled as 'ethical' exclude weapons, particularly those categorised as 'controversial'¹. However, a recent FT article² notes that "many investors have also bought into the argument from governments that backing arms makers, long the subject of boycotts and student protests, should carry positive social connotations rather than exclusively downside risk" and that "about a third of funds in Europe and the UK focused on environmental, social and governance issues now have €7.7bn invested in the sector, compared with €3.2bn in the first quarter of 2022."
1. Controversial weapons principally comprise those banned under international treaty.
 2. [Europe's ESG funds more than double defence holdings amid Ukraine war \(ft.com\)](#)
- 3.8 The Redington report identified a number of key considerations for Pensions Committee.
- What does the latest fiduciary guidance and draft legislation support?
 - What are the levers the Fund can use to support objectives?
 - What did the survey of responsible investment beliefs indicate?

3.9 There are a variety of ways in which engagement is undertaken by investors. The principal mechanisms in current use are set out below. All have been employed by MPF to a lesser or greater extent.

- Through fund managers
- Through specialist service providers
- In industry groupings

3.10 Four considerations for Members in relation to the way in which engagement might best be directed by MPF:

- Materiality: focus on issues that are financial material
- Scope for influence: focus on matters where MPF can have a substantive influence
- Sensitivity & interest: focus on issues of meaning or significance to MPF or its members
- Timing: significance of issue relative to other sector/investment specific matters at the time

3.11 Exercise of judgment in relation to exclusion

3.12 Redington has analysed the exclusion decisions of a number of leading European institutional investors. The analysis reveals a lack of consistency of approach even amongst peers and funds that use exclusion as one of their key levers and are considered by some to be particularly advanced in ethical investment thinking. There is a degree of commonality, but the analysis shows that a degree of subjectivity remains.

3.13 Defence companies are categorised in the 'Aerospace & Defence' sector. As the name of the sector suggests, for many companies, civil aviation is their predominate activity.

3.14 Many companies do not manufacture weapons but may produce components that are included in their production e.g. engines, fuselage, armour. 'Key components' may be difficult to define.

3.15 Some companies produce defensive products e.g. decoys, anti-drone, detection systems, cyber-security, body armour, respiratory protection etc.

3.16 There are businesses located in the local area which provide employment and pay council tax. Is it consistent for an LGPS fund to exclude a business that the local authority is willing to accommodate?

3.17 Many weapons today are so-called 'smart weapons' in view of the technology involved in their operation. With IT in some form intrinsic to many weapons, what are the implications for manufacturers of semiconductors, software, operating systems etc. Technology is also fundamental to communications, mapping and other surveillance.

3.18 Scope of policy – precedent setting

- 3.19 It is necessary that any policy that is agreed has a general application to investment controversies that may be raised with MPF. What other sectors/stocks would fall within the policy as many companies are involved in activities which can be deemed to cause harm of one kind or another.
- 3.20 **Recent Guidance and Legal Opinion**
- 3.21 The LGPS Scheme Advisory Board (SAB) recently issued some updated guidance for Administering Authorities as a reminder of Fiduciary Duty ([Guidance](#)) and lobbying pressure that some Pensions Committees have faced over the recent conflict between Israel / Gaza, noting “It is not appropriate for investment decisions to be driven directly by the political views of Pension Committee members or indeed Government ministers (except as where prescribed in law, e.g. under the Sanctions and Anti-Money Laundering Act 2018). The Supreme Court held, in its judgment on the Palestine Solidarity Campaign case, that it is not appropriate for political preferences, whether local or national, to take precedence over what is required under the fiduciary duty. This makes Pension Committees different from other local government committees that are dealing with service provision, and which have to make political choices about the prioritisation of scarce public resources. The Supreme Court (in the above case) was clear that administering LGPS funds is not best understood as a “local government function” or “part of the machinery of the state”, instead Pension Committees operate in a quasi-trustee role”
- 3.22 Further the LGPS SAB has sought to obtain Leading Counsel advice on the LGPS and implications of the current events concerning Gaza following a number of administering authorities receiving letters allege that they are acting unlawfully by holding, and failing to divest from, investments in companies which have been linked to the ongoing situation in the Middle East. Counsel advice was published on 24 October 2024 ([Legal Opinion](#)). The legal opinion has been sought following receipt by some administering authorities of letters, raising concerns about the investment of LGPS funds in what are said to be “companies in violation of international law”.
- 3.23 Nigel Giffin, KC considered the allegations being made reflecting on the current status of the law and concluded “This Opinion is concerned with the suggestion that it would be unlawful for administering authorities to invest, or continue to invest, LGPS funds in undertakings engaged in certain activities with a bearing upon Israel’s conduct in and in relation to Gaza or the other Palestinian territories. In my view, any such suggestion is incorrect”.
- 3.24 An important consideration is the regulation of export licences for weapons by the UK Government and recent action by the UK Government. The UK government has access to intelligence, information and sources that are not available to organisations such as MPF and is better placed to assess the situation in areas of conflict. The fact that the government has recently taken steps to suspend a number of export licences to Israel on humanitarian grounds goes some way to validating reliance on this process. It should be noted that whilst the government has introduced the suspension of some export licences to Israel on humanitarian grounds, this has been very limited in scope. Indeed, the press release on suspension of export licences the Foreign Secretary underlined support for Israeli security and confirmed “... this is not a blanket ban. This is not an arms embargo. It

targets around 30 of approximately 350 licences to Israel in total for items which could be used in the current conflict in Gaza. The rest will continue.”

- 3.25 If the recommendation in this report is supported, it is proposed that officers will provide further information, at a future RIWP, of any investments falling into this category. Officers recognise the importance of improving communication of responsible investment activities and are working on enhancing this area. The present consultation may also have implication for the implementation of responsible investment policies and Officers will provide further information on this once there is clarity on the outcome.

4.0 FINANCIAL IMPLICATIONS

- 4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

- 5.1 As set out in the report.

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

- 5.3 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 None arising directly from this report.

7.0 RELEVANT RISKS

- 7.1 As set out in the report. There are potential investment-related, financial and reputational risks arising from the Fund’s investments and it is important that these are managed and mitigated by effective stewardship.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The Local Pension Board has been consulted in accordance with statutory guidance.

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG 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 There are none arising directly from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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APPENDIX

NONE.

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance
<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>

TERMS OF REFERENCE

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

- (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

Subject History (last 3 years)

Council Meeting	Date

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Pensions Committee – Terms of Reference

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

In particular, the Committee is charged by full Council:

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

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