Public Document Pack

Pensions Committee

Date:	**Monday, 2 November 2020**
Time:	**6.00 p.m.**
Venue:	Virtual

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

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AGENDA

1. **WELCOME AND APOLOGIES**

2. **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.

3. **MINUTES (Pages 1 - 12)**

   To approve the accuracy of the minutes of the meeting held on 3 February, 2020.

4. **AUDIT PLAN AND ADDENDUM (Pages 13 - 32)**

5. **AUDIT FINDINGS REPORT (Pages 33 - 50)**

6. **MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2019/20 (Pages 51 - 142)**

7. **STATEMENT OF ACCOUNTS 2019/20 – MERSEYSIDE PENSION FUND AND LETTER OF REPRESENTATION (Pages 143 - 152)**

8. **PENSION BOARD REVIEW 2019-20 AND WORK PLAN 2020-21 (Pages 153 - 188)**

9. **INVESTMENT STRATEGY PROPOSALS (Pages 189 - 196)**

10. **LGPS UPDATE (Pages 197 - 204)**

11. **PROPOSED MCCLOUD JUDGMENT REMEDY AND LGPS CONSULTATION (Pages 205 - 226)**

12. **RETAIL PRICES INDEX REFORM (Pages 227 - 234)**

13. **INVESTMENT PERFORMANCE (Pages 235 - 240)**

14. **LOCAL PENSION BOARD MINUTES (Pages 241 - 254)**

15. **NATIONAL KNOWLEDGE ASSESSMENT (Pages 255 - 258)**

16. **NORTHERN LGPS UPDATE (Pages 259 - 262)**

17. **MINUTES OF WORKING PARTY MEETINGS (Pages 263 - 266)**

18. **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.

19. **INVESTMENT STRATEGY REVIEW EXEMPT APPENDIX (Pages 267 - 290)**

20. **NATIONAL KNOWLEDGE ASSESSMENT EXEMPT APPENDIX (Pages 291 - 310)**

21. **NORTHERN LGPS UPDATE (Pages 311 - 320)**

22. **WORKING PARTY MINUTES EXEMPT APPENDIX (Pages 321 - 344)**

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PENSIONS COMMITTEE

Monday, 3 February 2020

Present:	Councillor	P Cleary (Chair)	
	Councillors	C Carubia G Davies T Jones B Kenny	C Povall G Watt S Whittingham
	Councillor	P Lappin, Sefton Council	
		R Bannister, Unison retired member representative	
Apologies	Councillor	A Gardner	

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

Members were asked if they had any pecuniary or non-pecuniary interests in connection with any application on the agenda and, if so, to declare them and state the nature of the interest.

Roger Bannister declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor George Davies declared a pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Councillor Tony Jones declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Paulette Lappin declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Cherry Povall declared a pecuniary interest by virtue of her daughter being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

52 **MINUTES**

Resolved – That the accuracy of the minutes of the meeting held on 4 November, 2019 be agreed.

53 **PENSION BOARD REVIEW**

The Independent Chair of the Pension Board, Mr John Raisin, introduced his report which had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its members during its fourth year (1 April 2018 to 31 March 2019). The report also included a Work Plan for 2019-20. Both the report and Work Plan had been approved by the Pension Board at its meeting on 12 November 2019.

The report outlined the Purpose and Constitution of the Merseyside Local Pension Board and set out the revised terms of reference of the Board. Mr Raisin noted that under the revised Terms of Reference the Board would continue to consist of nine members, constituted of four Employer representatives, four Scheme member representatives and an independent, non-voting Chair who had responsibility for the co-ordination and operation of the Board. It was also noted that the Board would now meet at least four times in each year between 1 April and the (following) 31 March. This arrangement would enable the Board to more effectively discharge its duties and responsibilities given the increasingly complex environment of both regulatory requirements/guidance/governance and LGPS operations, together with the ongoing increasing expectations of the MHCLG, the Scheme Advisory Board and the Pensions Regulator.

The report provided information relating to Board Meetings held in 2018/2019 and gave details of the attendance and focus of Board meetings. The Independent Chair also outlined the proposed Pension Board Work Plan 2019 – 2020 and indicated that, from discussions with both the Director of Pensions and the Head of Pensions Administration, it was clear that the Merseyside Pension Fund positively utilised and valued the Pension Board and saw it as a body that could genuinely assist the Pensions Committee and Officers in the Governance and operation of Merseyside Pension Fund. Mr Raisin referred to the positive working relationship both he and Board members had enjoyed with Councillor Paul Doughty, former Chair of the Pensions Committee who had stood down as Chair of the Committee and as a ward Councillor in May 2019, and recorded his positive approach to the Pension board. The Independent Chair also placed on record his appreciation of the support that he and fellow Board members had received from officers of the Pension Fund which had enabled the Board to positively assist officers in governance.

The Chair of the Pensions Committee noted the Committee's appreciation of the work of the Independent Chair and Board members and thanked Mr Raisin for an interesting and informative report.

Resolved – That the report be noted.

54 **LGPS UPDATE**

Yvonne Murphy, Head of Pensions Administration, presented a report that gave an update on the 'McCloud Case', which related to the transitional protections afforded to those members of public service pension schemes who were closest to retirement age when the schemes were reformed under the Public Service Pension Act 2013.

In addition, the report updated Members on the High Court decision to transfer Equitable Life policies, (the legacy Additional Voluntary Contributions (AVC) provider for Merseyside Pension Fund) to Utmost Life and Pensions with effect from 1 January 2020.

Yvonne Murphy reminded members that at the meeting of the Pensions Committee on 4 November 2019 (minute 37 refers) Members had been informed of the position in regard to the ‘McCloud Case’; specifically, that the case would be returned to an employment tribunal for a decision as to the remedy for addressing the difference in member benefits.

On 15 November the Scheme Advisory Board (SAB) had published an update to confirm that the LGPS would be dealt with separately to other public service schemes and that the remedy was likely to involve an extension of some form of the ‘underpin’.

Members were informed that technical discussions were expected to take place imminently between MHCLG and the SAB, with a consultation on proposed changes expected to follow. However, it was not expected that any remedy would be implemented before the end of the 2020-21 financial year.

As the remedy would be applied retrospectively, the Fund had communicated to employers the possibility that data such as part-time hours, service breaks, and the pre-2014 definition pensionable pay may need to be provided at a future date. There was therefore a requirement that employers had systems and procedures in place to collect and hold this data.

Members were informed that the SAB website provided an overview of the case along with FAQ and further information and could be accessed from the following link:

https://www.lgpsboard.org/index.php/structure-reform/mccloud-page

With reference to the update provided at the last committee meeting relating to the transfer of Equitable Life policies, The Head of Pensions Administration confirmed to members that the Fund as policy holder had voted in favour of the transfer by the deadline of 30 October.

Scheme policy holders and ‘eligible members’ had voted overwhelmingly in favour of the proposed changes. Consequently, the High Court had been asked to approve the Scheme and Transfer on 22 November 2019.

Court approval to transfer the business of Equitable Life to Utmost Life and Pensions had been received on 4 December 2019. The Fund had updated members of the position by letter during December and had provided information on the AVC products provided by Utmost Life and Pensions along with the default AVC Funds selected by MPF upon the advice of its professional advisors.

The Head of Pensions Administration informed the Committee that the next steps would be:

- the ‘uplift’ would be applied to ‘with-profits’ policies as soon as practicable after 1 January 2020; and

• ‘with-profits’ policies would be converted to unit-linked policies from 1 January 2020.

Resolved – That the report be noted.

55 **ACTUARIAL VALUATION**

A report of the Director of Pensions informed Members that the Actuary had completed the calculations for the 2019 actuarial valuation based on membership and cashflow data provided by the Fund as at 31 March 2019.

The Head of Pension Administration informed members that the purpose of the valuation was to set a funding plan that would strike a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2020 to 31 March 2023. The emerging whole fund results presented a funding level of 102% with an associated surplus of £206m and an average employer future service cost of 17.1% of pay.

The position presented had followed in-depth discussions between the Fund Actuary (Mercer), officers and constituent employers in relation to the core financial and demographic assumptions. All individual employer results had been provided to employers in November setting out their initial valuation results and the potential impact that the McCloud case could have on their results. The results were subject to consideration of employer covenant and where necessary further meetings might take place upon completion of the covenant review. Employers must notify the Fund if they intended to include/exclude the McCloud allowance within their contributions. Where employers did not respond to the Fund, the default would be that the McCloud contributions would be included.

Members were informed that in order to undertake the valuation, the Actuary must have regard to the draft funding assumptions which had been updated following a formal consultation with all interested parties, which had commenced on 4 November with feedback requested by the end of November 2019. The draft Funding Strategy Statement (FSS) had been updated to take account of the feedback from employers. All contributory policies and statutory statements to support the valuation process were covered under separate reports at this Committee meeting.

The report informed that the Local Government Pension Scheme Regulations 2013 provided the statutory framework for the valuation process. The regulations required an actuarial assessment of the Fund’s assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years. The report included valuation results, an analysis of the change since 2018, future service contributions and valuation assumptions and a demographic assumptions update.

Resolved – That the report be noted.

56 **FUNDING STRATEGY STATEMENT**

Members gave consideration to a report of the Director of Pensions that informed the Committee of the Funding Strategy Statement. The LGPS Regulations required each administering authority to prepare and publish a Funding Strategy Statement

(FSS). The final proposed Funding Strategy Statement was attached as Appendix 1 to the report and incorporated the proposals on the funding strategy. Members were informed that there would be minor drafting changes between now and the statutory deadline of 31 March 2020.

A draft FSS had been sent out to employers as part of the consultation process during November 2019 and feedback had been requested. In order to assist employers with the consultation, the Fund Actuary had communicated the key FSS changes at employer meetings in November.

A number of comments had been received from employers following the consultation, and the FSS had been updated to reflect the comments made, particularly in relation to the policy on the prepayment of contributions. A summary of the comments and changes made were set out within the report.

Members were informed that the principal decision areas for the Committee were:

- The actuarial assumptions, deficit recovery plans and updated policies;
- Allowance in the FSS for the McCloud judgment; impact plus commentary on the considerations around the Cost Management Process in light of the judgment;
- The amendments regarding the policy on prepayment of employer contributions for employers and the operation of the policy.

The Pensions Committee were requested by the Fund Officers to delegate the refinement and finalisation of the FSS before the deadline of 31 March 2020.

Resolved – That;

1 the draft Funding Strategy Statement be approved.

2 the refinement and finalisation of the draft FSS by 31 March 2020 be delegated to the Director of Pensions.

57 REVISED INVESTMENT STRATEGY

A report of the Director of Pensions informed Members of proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation. The report sought approval for the revised Investment Strategy and the draft Investment Strategy Statement which had been revised in conjunction with the Funding Strategy, the subject of a separate report on the agenda. The Revised Investment Strategy Statement was attached as an appendix to the report.

The Director of Pensions apprised the Committee of the Statutory background to the Investment Strategy and outlined the Investment Strategy report.

The report informed the Committee that in conjunction with the Actuarial Valuation and Funding Strategy Statement investment strategy was reviewed with the Fund's advisors to ensure that the Fund's asset allocation would deliver investment returns over the long term to secure the long-term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities whilst taking an appropriate level of risk.

Members were informed that MPF's overall funding position had improved significantly from 84.6% at March 2016 to 102% at March 2019 – although funding levels would vary from employer to employer. Following extensive consultation with the actuary, the investment consultant, independent advisors and employers, it was proposed to 'lock in' some of the gains achieved and, over the next two to three years, reposition the portfolio towards an investment strategy providing greater capital stability. In general terms, less risky assets provided lower returns and, therefore, would reduce the actuary's assumptions of future asset growth thereby increasing the cost of the Scheme. In revising the strategic asset allocation, officers had sought to strike a balance between risk reduction and affordability. The broad asset allocations in the ISS had been agreed but there were likely to be some minor adjustments to the underlying geographical regional weightings as officers finalise benchmarks. These would not affect the overall modelled returns.

The report also informed Members that as a further measure the Fund put in place equity downside protection strategies and the intention was that, subject to funding level and market conditions, these would be extended as they reached maturity. The ISS had also been revised to reflect the medium and lower risk asset strategies available to employers

The director of Pensions also highlighted that, consistent with pooling guidance and MPF's objectives to deliver improved performance and cost savings, the Fund continued to seek opportunities to increase the proportion of assets managed by the internal investment team. Following the implementation of an internally managed global factor portfolio in March 2019, it was intended that further internally managed equity portfolios would be put in place as appropriate.

Resolved – That;

1. **the revised investment strategy, the revised Investment Strategy Statement be approved and the Director of Pensions be authorised to finalise the underlying regional and sub-asset weightings.**

2. **the extension by the Director of Pensions of equity downside protection strategies consistent with the Fund's investment strategy be noted and approved.**

58 TREASURY MANAGEMENT POLICY

Members gave consideration to a report of the Director of Pensions that requested Members to approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2020/21.

Donna Smith, Head of Finance and Risk, informed members that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services required Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy had last been approved by the Pensions Committee on 21 January 2019.

It was reported that the Fund's cash flows for dealings with members had moved negative with outflows to pensioners more than income from contributions and with the 2019 triennial valuation improved results, this would reduce contribution income further. Members were informed that in an environment where a significant proportion of investment income was directly re-invested, the levels of liquid resources held needed to be adequate and daily cashflows and regular reporting was essential.

The policy statement was attached as Appendix 1 to the report. It was reported that there were no significant changes to the policy followed for 2019/20.

Resolved – That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2020/21 be approved.

59 **PENSION FUND BUDGET**

Members gave consideration to a report of the Director of Pensions that requested Members approval of the budget for the financial year 2020/21. The budget for 2020/2021 was attached as an appendix to the report.

Donna Smith, Head of Finance and Risk reported that the headline figures were that, during the financial year 2020/21, it was estimated that MPF would pay £359m in pensions and receive £400m in contributions from employers and employees. The Fund had a value of £9.4bn at 30 September 2019. The proposed administration costs of £23.0m including £14.9m of investment management charges to external managers represented a cost of £166.33 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs were approximately £107.58 per member or 0.16% of assets under management.

The report set out that the budget for 2020/21 was higher at £23.0m than £22.3 in 2019/20 primarily due to higher investment management fees.

It was reported that over the medium term the Fund was undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments. The Head of Finance and Risk responded to questions from Members and it was;

Resolved – That;

1 subject to review of charges from the administering authority for support services that the budget for 2020/21 be approved.

2 a further report on the outturn for 2019/20 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2020/21 be presented to Pensions Committee Members in July.

60 **MEMBER DEVELOPMENT PROGRAMME**

A report of the Director of Pensions provided Members with an outline of the proposed programme for member development in 2020.

It was reported that the CIPFA Pensions Panel had developed a technical knowledge and skills framework for the Local Government Pension Scheme. The framework had been adopted by Pensions Committee in 2010 as demonstrating best practice and enabled the Fund to determine that it had the appropriate mix of knowledge and skills necessary to discharge its governance requirements. It also assisted Members in planning their training and development needs.

An outline training programme was attached as appendix 1 to the report. It comprised of a series of internal and external training events throughout the year. Individual papers would be brought to consider and approve attendance at each event and, as and when officers become aware of other appropriate events, Committee would be informed.

When relevant, formal training sessions were included in Investment Monitoring Working Parties. Additionally, presentations by external professional organisations and the deliberative nature of all the working parties meant that attendance was regarded as an important element of Member development.

The Local Government Pensions Committee-organised 'Fundamentals' course was considered essential for all members to complete. It provided a comprehensive overview of the LGPS and the 'trustee' role carried out by those serving on a pension committee/panel. The course took place over three days (during October – December), at multiple dates and in multiple locations (Cardiff, Leeds & London). It was noted that while considered essential for new members, longer serving members of Pensions Committee may also benefit from refresher training.

It was a statutory requirement that the Fund's annual report includes detailed information on training events offered and attended by elected members. A register of Members' attendance at training and development events was kept and reviewed annually by the Governance & Risk Working Party.

Appendix 2 of the report contained information on two forthcoming training and development opportunities.

Resolved – That

1 the proposed training and development plan for 2020 be noted and approved.

2 those Members wishing to attend the conference(s) in appendix 2 contact the Director of Pensions.

61 **GOOD GOVERNANCE PROJECT**

Yvonne Murphy, Head of Pensions Administration introduced a report that provided Members with an update on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the publication of the Phase II report on 15 November 2019. This latest report had been prepared by the two working groups formed following phase one of the project and built on the findings from the initial Good Governance report published in July 2019.

Good Governance Phase II contained detailed proposals for the changes required to implement the governance framework. It had also called for statutory guidance to set out the standards that LGPS funds were expected to meet with regard to compliance with governance responsibilities and the appropriate level of external oversight to improve accountability.

The report set out that strong governance of the LGPS had always been paramount, but due to the collapse of several private sector funds, alongside pressures to maintain balanced funds the need to maintain this strong governance had led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance.

The review focussed on the effectiveness of the LGPS governance models and considered alternatives or enhancements to existing models which could strengthen governance going forward whilst maintaining strong links to democratic accountability.

Members had been informed at the Committee meeting dated 4 November 2019 (minute 37 refers) that following the publication of the initial 'Good Governance Report' at the end of July, SAB would continue to progress the work to improve governance within the LGPS.

Two stakeholder working groups, supported by Hymans Robertson, had been established to develop the initial findings, capture existing best practice across funds and set consistent standards to build on the project's earlier proposals to strengthen the governance and administration of the LGPS.

The Phase II report had been published on 15 November 2019 and detailed the proposed outcomes from the workstreams, along with a summary of 17 recommendations necessary to implement an improved governance framework. The report could be accessed from the following link:

https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/

The Head of Pensions Administration outlined the key recommendations and informed Members that the new governance requirements would require the Fund to appoint an officer dedicated to governance to effectively coordinate the implementation of the proposals and review governance policies to ensure continued compliance as part of the biennial governance review and increasing scrutiny from tPR, SAB and the Local Pension Board activities.

The costs of implementing the recommendation from SAB's governance review of the LGPS would be met from the Pension Fund as part of its obligation to meet statutory legislation and guidance.

Resolved – That

1 the report and the recommendations within the 'Good Governance Phase II' report with regard to the effectiveness of the Local Government Pension Scheme Governance Arrangements be noted.

2 **the requirement for the Fund to increase officer resources in the area of governance management be noted.**

62 **PENSION BOARD MINUTES**

Members gave consideration to a report of the Director of Pensions that provided members with the minutes of the previous meeting of the Local Pension Board held on 12 November 2019 attached as appendix 1 to the report.

Resolved – That the minutes of the Local Pension Board held on 12 November 2019 be noted.

63 **WORKING PARTY MINUTES**

A report of the Director of Pensions provided Members with the minutes of meetings of Working Parties held since the last meeting.

Appendix 2 to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the minutes be approved.

64 **PROPERTY ARREARS**

Members gave consideration to a report of the Director of Pensions that requested that Members agree to the write off of £61,310.98 of unrecoverable rent arrears from the Fund's property portfolio. The annual property rental income for 2018/19 was £30.5 million.

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

Resolved – That the write-off of uncollectable property rental income of £61, 310.98 be approved.

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

Resolved – That in accordance with section 100 (A) 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 it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

66 **WORKING PARTY MINUTES**

The appendix to the report on Working Party Minutes was exempt by virtue of paragraph 3.

67 **PROPERTY ARREARS**

The appendix to the report on Property Arrears was exempt by virtue of paragraph 3.

68 **INTERNAL MANAGEMENT**

The appendix to the report on Internal Management was exempt by virtue of paragraph 3.

Resolved – That the recommendation of the Director of Pensions, as set out in the exempt report, be approved.

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External Audit Plan

Year ending 31 March 2020

Merseyside Pension Fund

March 2020

Page 13

Agenda Item 4

Contents

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Page 14

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1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (TCWG). For this purpose the Audit and Risk Management Committee of Wirral MBC are ultimately TCWG in respect of the Pension Fund financial statements but we have determined that the Pensions Committee is the appropriate committee to communicate with given its roles and responsibilities in relation to the Fund.

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

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

Page 15

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management Override of Controls • Valuation of Direct Property Investments • Valuation of Level 3 Investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £88.8m (PY £85.0m) for the Pension Fund, which equates to 1% of your net assets as at 31 March 2019. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £4.441m (PY £4.25m).
Audit logistics	Our interim visit will take place in March and our final visit is planned to take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £34,049 (PY: £30,399) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 64% of the members.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

In general, our work across pension funds in 2018/19 highlighted areas where financial reporting, in particular for Direct property and Level 3 investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures in order to satisfy the expectations of the FRC.

Pooling & Triennial Valuation

The required arrangements with regards to LGPS pooling, and the potential impact for Northern LGPS, are still to be finalised with the conclusions from the MHCLG consultation yet to be announced.

The Fund is currently implementing the 2019 triennial actuarial valuation. Contribution rates payable by employers have been agreed and the fund has updated its funding and investment strategies in response to the improved funding position.

Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Pensions and is subject to PSAA agreement.

- We will continue to monitor the position with regards to the MHCLG consultation and have regular discussions with management over the potential impact for the fund if a FCA regulated company is required.
- For our IAS 19 Assurance work, we will understand the key assumptions used by the actuary in the calculation of the actuarial valuation and test the data provided to actuary for their calculations

3. Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Merseyside Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Page 17

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Directly Held Property	The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£522 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records
Valuation of Level 3 Investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (circa £2 billion) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available review investment manager service auditor report on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other matters

Other work

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

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

- We read any other information published alongside the Council’s financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Page 19

Other material balances and transactions

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

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern” (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

5. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

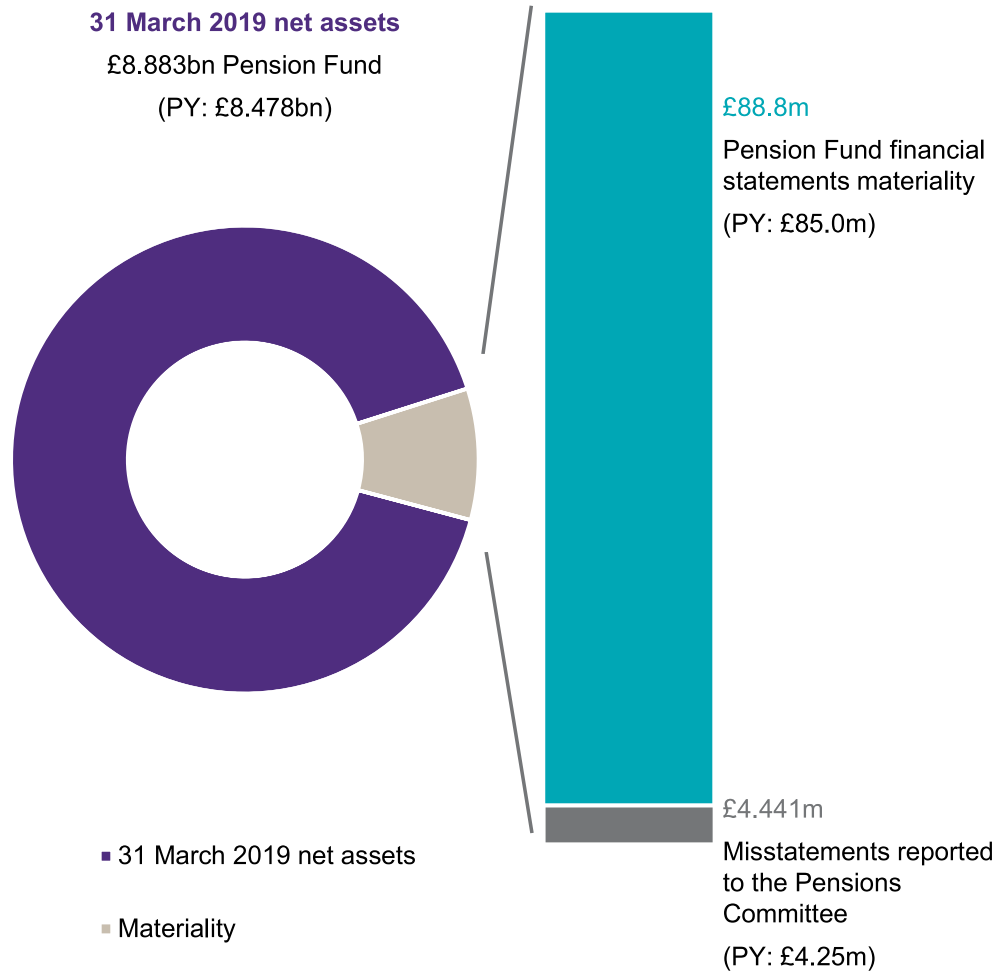
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £88.8m (PY £85.0m) for the Pension Fund, which equates to 1% of your net assets as at 31 March 2019.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

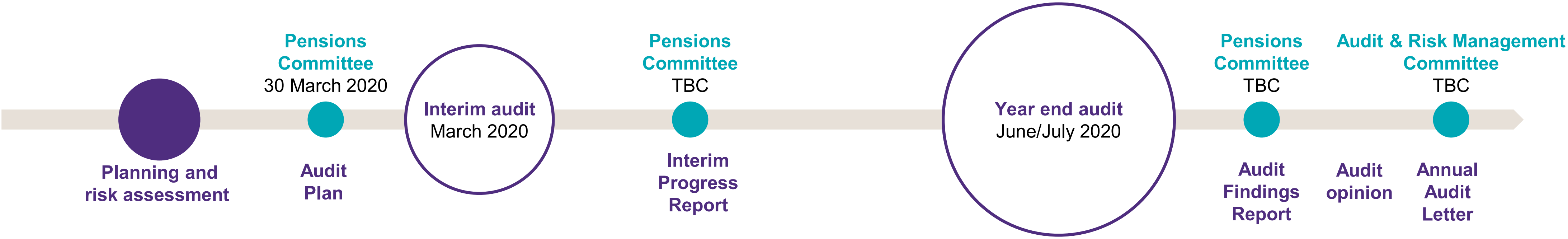
Matters we will report to the Pensions Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.441m (PY £4.25m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee to assist it in fulfilling its governance responsibilities.



6. Audit logistics & team



Page 21

Robin Baker, Key Audit Partner

Robin leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Fund.

Stuart Basnett, Audit Manager

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

Chris Blakemore, Audit Incharge

Chris assists in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently and supervising and co-ordinating the on-site audit team.

Client responsibilities

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

Our requirements

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

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

7. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Merseyside Pension Fund and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	£36,882	£30,399	£34,049
IAS 19 Assurance Letters	£3,730	£8,250	TBC
Total audit fees (excluding VAT)	**£40,612**	**£38,649**	**TBC**

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

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

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

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale (contracted) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	£28,399	
Raising the bar	£1,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	£1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Directly held property – work of experts	£1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin directly held property valuations.
Changes in Accounting Standards	£650	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	**£34,049**	

8. Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Provision of IAS 19 Assurances to Scheme Employer auditors	TBC (we are currently finalising the additional work required on the 2019 Triennial Valuation – Prior year cost was £750 per letter and we expect 12 letters for 19/20)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is relatively small in comparison to the total fee for the audit of £34,049 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Pensions Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.
The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working with you to seek to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Audit & Risk Management Committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and aim to ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in completing the audit. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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External Audit Plan Update

Merseyside Pension Fund

Year ending 31 March 2020

12 May 2020

Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Merseyside Pension Fund (‘the Fund’) as reported in our Audit Plan dated March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan dated March 2020, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around covenant strengths, funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. We understand that the Fund is aiming to share with us draft financial statements by 31 July 2020 and we will liaise with management should changes to our agreed delivery timescales be necessary. We continue to be responsible for forming and expressing an opinion on the Fund’s financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA’s (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22 – we expect the impact of IFRS 16 on the Fund to be minimal and we are anticipating that CIPFA will disapply the disclosures required under IAS 8 in 2019/20 but will keep the area under review.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the specific risk identified due to Covid-19 at this time but we will keep matters under review (see next bullet).
- We anticipate revisiting headline materiality - which is determined at the planning stage using net assets as a benchmark and is currently £88.8m as reported in our Audit Plan dated March 2020 - due to the volatility observed in global markets in the first quarter of 2020. We will not be able to confirm any revised value (if appropriate) until we have received draft financial statements owing to the high level of uncertainty. In the event that materiality is revised we will communicate this to those charged with governance and confirm within our Audit Findings Report.

Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property - dependent on the level of volatility, we may need the assistance of our own internal valuation expert to obtain the required assurance. • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

Grant Thornton

The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2020

20 October 2020

Contents

Your key Grant Thornton team members are:

Page 34

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020. The Audit & Risk Management Committee of Wirral Council are who we have determined are those charged with governance but and the Pensions Committee is a sub-group whom we have determined we are required to communicate with.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on public services. For Merseyside Pension Fund however the impact on the normal operations of the Fund has not been overly significant. There have been no significant increases in staff sickness and the Fund were able to prepare the draft accounts by 31 July 2020, well in advance of the national deadline. It is noted however that all non-critical formal committee meetings at the Fund and the Administering Authority were cancelled due to Covid-19 with the fund’s governance arrangements being monitored via delegated powers and informal committee briefings.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We issued our original Audit Plan in March 2020. We have updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan Addendum dated 12 May 2020. In that addendum we reported an additional financial statement level risk in respect of Covid - 19. Further detail is set out on page 5.

Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to new working arrangements such remote accessing financial systems, video calling and gaining assurance over the completeness and accuracy of information produced by the entity remotely.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during August - October. Our findings are summarised on pages 4 to 12. We have identified an adjustment to the financial statements which resulted in a £5.8m adjustment to the Pension Fund’s reported financial position. Audit adjustments are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware at this time that would require modification of our audit opinion [Appendix C] or material changes to the financial statements, subject to appropriate resolution of the outstanding matters and work-in-progress areas of the audit detailed on page 4.

In addition to the list on page 4 we will also:

- need to complete a review of the final set of financial statements and annual report, and
- require receipt of the signed management representation letter

Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting asset valuation material uncertainties. This would not affect our opinion that the statements give a true and fair view of the Fund’s financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund’s financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 12 May 2020, to reflect our response to the Covid-19 pandemic, as follows;

- We added the impact of Covid-19 as a significant risk to our audit
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the specific risk identified due to Covid-19.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Wirral Council Audit & Risk Management Committee meeting in November 2020, as detailed in (Appendix C). These outstanding items include:

- Completion of our procedures over the valuation of all fair value levels of investments (particularly level 3's which is a significant risk)
- Completion of our testing on the valuation of directly held property
- Receipt of responses from our technical team on the valuation and presentation of derivatives
- Receipt of the response from our inquiries of the Chair of Wirral Council's Audit & Risk Management
- Completion of procedures on minor disclosure notes
- Final review of the file by the Review Partner
- Updating our post balance sheet events to the date of the opinion.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	£88.8m	We have determined materiality for the audit to be £88.8m (equivalent to 1% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	£66.6m	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	£4.441m	This equates to 5% of materiality. This is our reporting threshold to the Pension Fund Committee and Wirral's Audit & Risk Committee for any errors identified.

Significant audit risks

Risks identified in our Audit Plan | **Auditor commentary**

Covid–19

We worked with management to understand the implications which the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations which ultimately remained the same. We also liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.

In response to this risk we:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 July 2020;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- engaged the use of an auditor's experts to assist with our assessment of the disclosure of directly held property valuations.

As detailed against the other affected significant risk areas, we extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation.

As referred to in more detail under the valuation of directly held property significant risk, the Fund's direct property valuers have declared a '*material uncertainty*' in relation to their valuation as at 31 March 2020. The Fund have appropriately disclosed this material uncertainty in Note 5 of the accounts as well as providing a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We are therefore proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.

The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Wirral Council as the Administering Authority of Merseyside Pension Fund, mean that all forms of fraud are seen as unacceptable.

Our assessment in this area has not changed during the course of audit work performed on the 2019/20 draft financial statements. Therefore we do not consider this to be a significant risk for Merseyside Pension Fund. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management over-ride of controls	In response to this risk we have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample. We do not have any concerns to report in this area.
Valuation of Directly Held Property	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently requested year-end confirmations from investment managers, evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Fund's financial records. • in addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points. As a result of the Covid-19 pandemic, the Fund's valuers have declared a 'material uncertainty' in relation to their valuation as at 31 March 2020. This is in response to the global impact of Covid-19 generating an unprecedented set of circumstances on which Savills have had to base their valuation, and as a result they declared that a higher degree of caution should be attached to the valuation than would normally be the case. This material uncertainty is being declared by the majority of RICS compliant valuers nationally and is not specific to the Fund. The Fund have made appropriate reference to this 'material uncertainty' within Note 5 to the accounts. They have assessed the potential impact to the Fund and have provided a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We are therefore proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19. Our opinion is not modified in this respect. **Our audit work to date has not identified any issues in respect of the valuation of Direct property. However, at the time of writing we are still resolving final queries with management's expert and completing our testing of the source data relied upon.**

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Level 3 Investments	In response to this risk we have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met • independently requested year-end confirmations from investment managers • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our testing of level 3 investments indicated that the balance was overstated. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. The factual overstatement error identified in our sample testing is £16.021m. We have extrapolated this error across the remainder of the population which was not tested and determined an extrapolated uncertainty of £30.741m. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material. Further detail can be found in Appendix A. Management has disclosed within Note 5 of the accounts the impact that Covid-19 has caused in adding a further degree of uncertainty to the year end values recorded in the financial statements. Management also confirmed that the investment managers for the funds have factored an adjustment for Covid-19 into their valuations. **Our audit work to date has not identified any other issues in respect of the valuation of Level 3 investments. At the time of writing this report we still need to obtain the remaining audited accounts from third parties for two investments in order to complete our testing. There are also four investments (value £61.871m) for which we are unlikely to obtain audited accounts for. We are therefore in discussion with the Fund over alternative audit procedures which we need to perform to gain assurance over the valuation of these investments.**

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Management have provided us with a forecast Fund Account including income, expenditure and asset values for the next 3 years. This forecast includes an assessment of: • the estimated impact of Covid-19 on income streams • the impact of the updated contributions rates as a result of the 2019 triennial valuation	• Whilst the Fund’s financial statements are prepared in accordance with CIPFA’s Code of Local Authority Accounting the PRAG Pension SORP provides helpful additional guidance for defined benefit schemes in noting that even where a scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. As noted the Scheme is currently 101% funded on a solvency basis based upon the latest triennial valuation and has sufficient funds to continue meeting benefit payments for the medium to long term (see below). In respect of any such decision for wind up the LGPS is a statutory scheme that can only be wound up by Government and there are currently no intentions to wind up the Merseyside Pension Fund. • Management’s forecasts supporting the use of the going concern basis, prepared by the Fund’s Head of Finance & Risk, were sufficiently detailed and based on appropriate assumptions.
Work performed We have assessed the judgment made by management as well as the forecasted financial information which they have provided us. We challenged the assumptions applied by management in the forecasts and applied sensitivity analysis to those assumptions to consider the effect of estimation uncertainty on those assumptions. Our findings support the Fund’s assessment that the use of the going concern basis of preparation is appropriate.	• The Net Assets of the Fund at 31/3/20 were £8.6bn. This is approximately 23 times the annual benefit payments due. • The Fund has £4.053bn of Level 1 assets. These assets are liquid and can be accessed quickly for cashflow purposes if required. • The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme. • No material uncertainties related to going concern were identified • No issues have been identified from the work performed
Concluding comments	The Fund have included, within Note 6 of the accounts, a non-adjusting post balance sheet event in relation to the impact of Covid-19 on the fund and the uncertainties it presents. The use of the going concern basis is appropriate and therefore our audit opinion is unmodified in this respect.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in unquoted equity and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £1,898m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in. The value of the investments has increased by £206m in 2019/20, largely due to the net impact of acquisitions exceeding disposals and net losses on investments. Management has disclosed within note 5 of the accounts the impact that Covid-19 has caused in adding a further degree of uncertainty to the year end values recorded in the financial statements.	Management determine the values of level 3 investments through placing reliance on the expertise of investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts. Management have disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis to allow the reader to understand the potential impact on the accounts should the value of those estimates change. **Our work on level 3 investments is still ongoing. At the time of writing this report we still need to obtain a small number audited accounts from third parties, or conduct alternative procedures where accounts are not available.**	● Green
Level 2 investments	The Pension Fund have investments in unquoted bonds, pooled investments and derivatives that in total are valued on the balance sheet as at 31 March 2020 at £1,663m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. The value of the investment has decreased by £107m in 2019/20, largely due to net disposals and a fall in market value.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We have also consulted with our technical team in determining the appropriateness of the valuation of the derivative investments. At the time of writing we are still awaiting their feedback. We have identified two issues to date with regards to level 2 investments. Firstly, derivative swaps positions of £5.843m was incorrectly omitted from the draft accounts. Secondly, the purchases and sales of derivatives within Note 13 was prepared on a net rather than gross basis. Both of these items will be amended in the final set of accounts, see appendix A for further detail. **At the time of writing we are still finalising our work on level 2 investments.**	● Green

Page 41

Assessment

- ● Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Valuation of Direct Property	The Pension Fund has investments in directly held investment properties that in total are valued on the balance sheet as at 31 March 2020 at £472m. In order to determine the value, management engage independent RICs qualified valuers, Savills, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/20. The value of the investments have decreased by £49.8m in 2019/20, largely due to the net impact of purchases and sales, and also a fall in market value. The valuers report has been prepared on the basis of a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. The Fund have appropriately referred to this within note 5 of the accounts and have provided a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund.	Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer. As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the property. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon. We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range. As a result of the added uncertainty caused by Covid-19 we engaged our own auditors expert to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points. **At the time of writing we are still awaiting responses to our final queries with management's expert.**	● Green

Page 42

Assessment

- ● Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions and Audit and Risk Management Committees. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. The Fund has included within note 23, disclosures relating to MPF fund managers with roles on investment boards who do not technically meet the definition of a related party under IAS 24. However, the Fund have disclosed the nature of these relationships and related transactions for transparency.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Pension Fund Committee Papers. We have requested specific representations in respect of the ‘material valuation uncertainty’ disclosures (referred to on pages 6 and 10) and management’s proposals not to make adjustments for the matters reported on page 7.
Confirmation requests from third parties	We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers of alternative investments. As detailed on page 9, we have received confirmations/audited accounts from most managers and management are assisting us to chase those confirmations that remain outstanding.
Disclosures	Our review found no material omissions in the financial statements. For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be mislead by the current disclosures but have discussed with management and this is an area that will be kept under review.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion on the Pension Fund’s Annual Report with the opinion on the accounts.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 procedures for other bodies admitted to the pension fund	£875 per letter (13 expected)	Self-Interest (because this is a recurring fee)	The fee for this work is recurring but not significant compared to the audit of the financial statements of £34,049 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit. These factors all mitigate the perceived self-interest threat to an acceptable level. The Fund has accrued for a fee of £9,800 for IAS 19 work. The amount to be recharged is to be confirmed but we are satisfied that the amount disclosed in the accounts would only differ from that which would be recharged by an insignificant amount .
		Self-review	We have not prepared the financial information on which our assurances will be used by the requesting auditor. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management
		Management	We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.
Non-audit related			
None			

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Pension Fund Committee None of the services provided are subject to contingent fees.

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
Valuation of Level 2 Derivative Investments The draft accounts incorrectly omitted derivative total return swap investments of £5.843m from the Net Asset Statement and related Investment Notes. Management have confirmed that the accounts will be amended to take account of these investments.	£5,843	£5,843	£5,843
Overall impact	**£5,843**	**£5,843**	**£5,843**

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Page 45

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Wirral Council Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Management's Reason for not adjusting
Valuation of level 3 investments Our testing of level 3 investments indicated that the balance was overstated due to the Fund using valuations as at 31/12/19 (the latest available at the time of preparing the accounts) for some investments and not valuations as at 31/3/2020. The value of the overstatement error is £16.021m. Since this amount relates only to investment valuations included in our sample we have extrapolated the potential difference across the remainder of the level 3 investments balance which identified a possible extrapolated difference of £30.741m. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material.	(£30,741)	(£30,741)	(£30,741)	As detailed earlier in the report, this is an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements as opposed to a precise proposed adjustment. Overall, our assessment is that the financial statements are not materially misstated and therefore no adjusting entry is required.
Overall impact	**(£30,741)**	**(£30,741)**	**(£30,741)**	

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission/amendment	Auditor recommendations	Adjusted?
General disclosures throughout the accounts Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader.	We have shared the areas for presentational amendments and these have been reflected in the revised accounts. We also accept that management provided the accounts to us a month before the deadline so we could commence our audit and so limited the time available for managements own reviews of the accounts for presentational matters.	✓
Covid-19 and Estimation Uncertainty disclosures Our review of the draft accounts and reference to the FRC's Thematic Review of the Financial Reporting effects of Covid-19 identified areas of the accounts where enhanced disclosures could be made to allow the user of the accounts to greater understand the impact of Covid-19 on the Fund's accounts.	We shared the areas for improvement with management. Further disclosure has been added to the revised accounts within the Post Balance Sheet Events note, and the Estimation Uncertainty note.	✓
Note 13 Investments The Investments note in the draft accounts included amounts for purchases and sales of derivative investments at the net value. These items should be included in the note as gross value. The impact of this is an understatement of purchases and sales of £338.356m. The purchases and sales recorded within note 13 of the draft accounts also included some transactions which were transfers between portfolios as opposed to settled purchase/sales trades. These items should not be recorded as purchases and sales within this note. The impact of this is an adjustment to both figures of £167.737m.	Management have confirmed that they will amend the accounts for both of the issues identified.	✓
Note 13b Analysis of Derivatives Related to the adjusted misstatement detailed on page 13, further disclosures are needed for the derivative swaps which were not accounted for by the fund in the draft accounts.	Management are amending the accounts to add in the additional disclosures required.	✓

Page 45

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund	£34,049	£38,249
Total audit fees (excluding VAT)	**£34,049**	**£TBC***

***We have amended our approach communicated to you in our audit plan to address the risk to the valuation of direct property as a result of the impact of Covid-19. As such we have engaged our own valuation expert to assist us in gaining assurance over the valuation of your directly held investment properties. The cost to the audit of this change in approach is expected to be £4,200.**

The proposed fees reconcile to the financial statements. The Fund have accrued £34k for audit fees and £10k for audit related non-audit fees based on our audit plan and will account for the additional fees that arise in the subsequent year, we are happy that this does not materially mispresent the position in your financial statements.

Non-audit fees for other services	Proposed fee	Final fee
IAS19 procedures for other bodies admitted to the pension fun	£875 per letter	TBC
Total non- audit fees (excluding VAT)		**£TBC**

Appendix C

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Wirral Metropolitan Borough Council on the pension fund financial statements of Merseyside Pension Fund

Opinion

We have audited the financial statements of Merseyside Pension Fund (the 'pension fund') administered by Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Resources' has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources. The Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit & Risk Management Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

grantthornton.co.uk

WIRRAL

PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	**MPF ANNUAL REPORT & ACCOUNTS 2019/20**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Members with the Fund's Annual Report & Accounts for 2019/20.

RECOMMENDATION/S

That Members approve the Annual Report of Merseyside Pension Fund for publication.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 There is a statutory requirement to produce an annual report for the year to 31 March by 1 December of that year.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 The LGPS regulations require the Pension Fund Annual Report to contain the Fund Accounts and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.

3.2 International Standards on Auditing (UK&I) 810 (revised) requires that auditors read any information published with the accounts. It also states that the auditor should not issue an opinion until that other information is published.

3.3 The Fund's Statement of Accounts and the auditor's Audit Findings Report are separate items on this agenda and provide additional assurance that the annual report has been subject to independent scrutiny.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 Regulation 57 of the Local Government Pension Scheme (LGPS) Administration Regulations requires local authorities to produce an Annual Report for the year to 31 March by 1 December of that year.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 There are none arising from this report.

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 An Equality Impact Assessment is not required for this type of report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

REPORT AUTHOR: **Donna Smith**
(Head of Finance & Risk)
telephone: 0151 242 1312
email: donnasmith@wirral.gov.uk

APPENDICES

Merseyside Pension Fund Annual Report & Accounts 2019/20.

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
The Fund's Annual Report & Accounts is brought annually to this Committee.	**16 July 2019** **16 July 2018** **17 July 2017**

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Merseyside Pension Fund Report & Accounts 2019/20

Contents

Management Structure At 31 March 2020

Administering Authority
Wirral Council

Pension Fund Management Committee
Chair:

Cllr Pat Cleary	**Wirral**

Vice Chair:

Cllr George Davies	**Wirral**
Cllr Chris Carubia	**Wirral**
Cllr Andrew Gardner	**Wirral**
Cllr Tony Jones	**Wirral**
Cllr Brian Kenny	**Wirral**
Cllr Cherry Povall, JP	**Wirral**
Cllr Geoffrey Watt	**Wirral**
Cllr Stuart Whittingham	**Wirral**
Cllr Jane Aston	**Knowsley**
Cllr Ian Byrne	**Liverpool**
Cllr Pauline Lappin	**Sefton**
Cllr John Fulham	**St Helens**

Employee Representatives (Non-voting)

Roger Bannister	**UNISON**

Officers of the Fund

Peter Wallach	**Director of Pensions**
Yvonne Murphy	**Head of Pensions Administration**
Colin Hughes	**Group Solicitor**
Donna Smith	**Head of Finance & Risk**
Shaer Halewood	**Director of Finance & Investments**

Advisors to Investment Monitoring Working Party
Director of Pensions
Senior Portfolio Manager
Aon Hewitt
Mr R Worrall

Local Pension Board
Independent Chair:
John Raisin

Employer Representatives:
Geoff Broadhead
Peter Fieldsend
Lynn Robinson

Member Representatives:
Roger Irvine
Donna Ridland
Patrick Moloney
Paul Wiggins

Advisors to Governance and Risk Working Party
Director of Pensions
Head of Pensions Administration
Head of Finance and Risk

Others
Auditor
Grant Thornton

Bankers
Lloyds Banking Group

Consultant Actuary
Mercer HR Consulting

Strategic Investment Consultant
Aon Hewitt

Custodian of Assets
Northern Trust

Responsible Investment Advisors
Pensions and Investment Research Consultants Ltd

Property Advisors
CBRE Capital Advisors

Property Managers
CBRE Asset Services

Property Valuers
Savills

Performance Measurement
Northern Trust

Solicitor
Wirral Council

AVC Providers
Utmost Life (transfer from Equitable Life)
Standard Life
Prudential

LGPS Investment Pool
Northern LGPS (with GMPF and WYPF)

Chair's Introduction

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2020. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months, as well as providing general information regarding the pension scheme.

The Overall Aim of the Fund

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liability profile. The Pensions Committee and local Pension Board reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisors, to ensure that they remain appropriate.

Investments and Performance

Growth in the global economy helped financial markets continue their rise throughout 2019. However, the opening quarter of 2020 was dominated by the emergence and spread of the COVID-19 pandemic. As cases of infections and deaths rose, government actions to contain the spread hit economic activity and dealt a blow to investors' risk appetites.

The impact on asset markets was severe with some equity markets falling by over 30% before stabilising. Corporate credit spreads also widened significantly, as fears of insolvency mounted. In tandem with the carnage in equity markets, the price of crude oil collapsed with the breakdown in OPEC-Russia negotiations, resulting in Saudi Arabia pledging to flood the market with cheap oil at a time when demand was falling sharply. On the positive side, bond markets rose, reflecting investor preferences for defensive assets, with government bonds rallying amid policy rate cuts and pledges for bond purchases by Central Banks.

While the backward-looking nature of economic data has yet to fully capture the impact of measures taken to contain the virus, the effect will be immense. A common reaction of countries was to issue stay at home directives, close restaurants and hotels, ground flights and send non-essential workers home. This may turn out to be the worst but also the shortest recession for several generations.

The Fund has been moving its investment strategy in a more defensive direction and had also put in place some derivative strategies which helped to limit the effect of the market falls. For the twelve months, the Fund fell in value by just over 2%.

Since the first quarter, markets have rebounded strongly, as unprecedented liquidity injections were provided by major central banks and huge fiscal support from governments.

More detail is provided in the ***Investment Report***, including information on the distribution of assets and performance.

We continue to make progress on sustainability matters. This year's report provides information on the carbon footprint of the Fund's investments, consistent with the Taskforce on Climate Related Financial Disclosure (TCFD) requirements. As part of the review of our investment strategy, the Fund is using climate scenario analysis to further articulate its investment beliefs on climate and to shape these into investment strategy goals.

The Fund continues to deploy capital at scale into renewable energy, primarily through its investments in Infrastructure and has over £200m invested in wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

During the year, the provision of data for the actuarial valuation (as at 31 March 2019) and working through the outcomes has been an area of significant focus. Our overall funding position has shown a significant improvement from 84.8% in March 2016 to 101% at 31 March 2019. This is principally due to stronger than forecast investment returns, but changes in demographic assumptions have also been helpful. Although each employer's results will differ, for most, this has translated into a significant reduction in deficit payments.

The remedy for the McCloud case has yet to be determined. In November 2019, the Scheme Advisory Board confirmed that the LGPS will be dealt with separately to other public service schemes and that the remedy is likely to involve an extension of some form of the 'underpin'. As the remedy will be applied retrospectively, the Fund has communicated to employers the possibility that data such as part-time hours, service breaks and the pre-2014 definition pensionable pay may need to be provided at a future date.

Governance continues to be a matter of priority. The Pensions Regulator undertook a review of governance and administration risks in November 2019 and the Scheme Advisory Board is in the latter phases of its Good Governance review. We are working hard to ensure our arrangements embody best practice.

Further details of current and proposed legislative changes are provided in the ***Scheme Administration Report.***

Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the ever-evolving Scheme.

We have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, deferred members and pensioners. The Fund's websites continue to be updated regularly and we are encouraging greater use of electronic media to enhance security and efficiency of information exchange.

The Annual Employers' Conference was held at Aintree Racecourse in November 2019. The event was well attended and featured speakers from the Scheme Advisory Board, the actuary and officers of the Fund.

Past Changes and the Future

Investment Pooling through the development of the Northern LGPS is developing well. We have introduced a separate report on the Pool in this year's report.

The Pension Board continues its activities in support of the Administering Authority which are set out in the separate Pension Board report.

We continue to seek suitable local opportunities for investment. At present, we are providing funding of around £40m to three investments which will support the regeneration of the City Region. We are also signatories to the Homelessness Charter; a collaborative arrangement with local businesses to alleviate homelessness on Merseyside.

Our internal investment management capabilities continue to develop, which has enabled us to launch an internally managed global equity multi-factor portfolio in March 2019. We see this trend continuing to deliver cost savings and efficiencies.

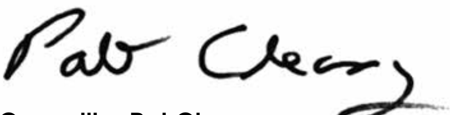
In mid-March, in response to the pandemic, the Fund's staff moved to homeworking. This has been disruptive but we have been able to keep all of our services available and are striving to maintain service levels.

As we look ahead, we are preparing for the impact of Brexit on financial markets and, more immediately, the ramifications of the pandemic for all of us in every aspect of life.

As ever, the continued success of the Fund depends on the combined efforts of all those concerned with its operation. In conclusion, I should like to thank the Committee, the Pension Board, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

Preparation of Report

This Annual Report has been produced in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.



Councillor Pat Cleary
Chair, Pensions Committee
June 2020

Management Report

Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Pat Cleary.

In 2019/20, the Committee comprised Councillors from the Wirral Labour group (4), Conservatives (3), Green Party (1), Liberal Democrats (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton) and employee representatives (3). The Director of Finance & Investment, the Director of Pensions and other officers of the Fund also attend Committee, which meets around four times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) provide further information on the Fund's investment philosophy and investment framework.

The more detailed consideration of investment strategy and asset allocation of the Fund's portfolio is considered by the Investment Monitoring Working Party (IMWP). The IMWP meets at least four times a year to review investment strategy and to receive reports on investment activity. The Working Party comprises representatives from the Pensions Committee, two independent advisors, Aon Hewitt and members of the in-house investment team.

The Fund uses a combination of internal and external management and active and passive strategies across the various asset classes in which it invests. Investment managers have specific benchmarks against which performance is measured and monitored. In addition, internal investment managers report to the Director of Pensions through regular Fund Operating Group meetings and follow procedures laid down in an internal Compliance Manual.

Comprehensive details of the Fund's investment managers, mandates and advisors are set out in its Investment Strategy Statement.

Governance, pensions administration and policies, risk management and related matters are scrutinised by the Governance and Risk Working Party (GRWP) which meets twice yearly.

An additional source of assurance is provided by the Local Pension Board. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme in securing compliance with legislation and ensuring the effective governance and administration of the Fund. A separate report on the Board's activities is contained in this report.

Risk Management

The Fund's governance arrangements, set out in the preceding section, ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels.

The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisors and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal Fund documents relating to risk management and control are:

- Governance Policy
- Communications Policy
- Funding Strategy Statement
- Investment Strategy Statement
- Investment Monitoring Policy
- Health & Safety Policy
- Data Protection Policy

Copies of these documents are available from the Fund and are published on the Fund website at: **mpfund.uk/risk**

In addition, the Fund maintains a risk register and a compliance manual for its employees.

These documents are all subject to regular scrutiny by Pensions Committee, Pensions Board and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least once a year by the Fund's external and internal auditors.

Additionally, and where applicable, the Fund adheres to the Administering Authority's constitution in managing its operations. Legal opinion and advice is provided by Wirral Council's legal team and from external sources where appropriate.

Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision-making with regard to the pension scheme, are fully equipped with the knowledge and skills to discharge the duties and responsibilities assigned to them. It therefore seeks to appoint individuals who are both capable and experienced and provides/ arranges training for staff and members of the Pensions Committee and Pension Board, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Our training plan sets out how we intend the necessary pension finance knowledge and skills are acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Pensions Committee has designated the Director of Pensions to be responsible for ensuring that policies and strategies are implemented.

Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to, and approved by, Pensions Committee. The Fund develops its Pensions Committee/Pension Board members and officers, through training and education. This includes regular meetings, ad hoc seminars and conferences, bespoke training and e-learning.

Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by regular working parties. The IMWP includes a minimum of two presentations which cover all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The GRWPs enable matters relating to other risks, governance and pensions administration to be covered in greater depth, as necessary.

This year, the Fund has been working with its actuary and advisors on the Fund's triennial valuation and review of investment strategy. Investment strategy was identified as an area for learning and development, and Members received a range of presentations and briefings on the topic particularly at the quarterly working parties and the two LGC conferences.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed in ***Appendix B - Pensions Committee Items.***

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee attends the business meetings covering many aspects of responsible investment.

In addition to regular Committee meetings and Working Parties, training opportunities provided during the year were as follows:

Month	Event
May	PLSA LGPS Conference
September	LGC Investment Summit
October	PLSA Annual Conference
Oct-Dec	Fundamentals Training
December	LAPFF Annual Conference
January	LGPS Governance Conference
February	LGC Investment Seminar

As the officer nominated by the Pensions Committee responsible for ensuring that the Fund's training policies and strategies are implemented, the Director of Pensions can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme, collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Pension Board Report

Local Pension Boards (LPB) were established across the Local Government Pension Scheme with a requirement to become operational from 1 July 2015 to assist Administering Authorities in their role as managers of the Scheme.

Statement of Purpose for the Merseyside Local Pension Board

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pension Regulator in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in a year. There is also the provision for special meetings to be convened at notice.

Constitution/Management Arrangements

The Pension Board consists of nine members and is constituted of:

- four employer representatives: two nominated from Local/Police/Fire/Transport authorities or Parish Councils; one from Academies/Further/Higher Education bodies; one from Admitted bodies;
- four scheme member representatives; two representing active members; two representing deferred and pensioner members;
- one independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board.

Additional information is included in the Board's Terms of Reference available on the Fund's website at **mpfund.uk/lpbterms**

Executive Summary

The Board has worked with officers to provide Wirral Council with additional assurance regarding the operation of the Fund. As evidenced in the Board's work plan, the Board has undertaken a rigorous assessment of pooling developments and its implications for the Administering Authority.

It continues to remain abreast of regulatory developments, the activities of the Pensions Regulator and to scrutinise the performance of the Fund, particularly in relation to its administrative functions.

The Chair made a presentation on the Board's activities to Pensions Committee.

Four meetings were to be held during the year, but the meeting scheduled for March 2020 was cancelled due to the pandemic. In addition, a detailed training programme was undertaken involving internal and external training. Board members have attended Working Parties to gain greater familiarity with the activities and procedures of Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables below.

Board Changes

In November, Mr Fieldsend joined the Board and, subsequent to the financial year end, Mr Van Arendsen; both as employer representatives.

I am very sorry to advise that in June of this year, Paul Wiggins passed away after a prolonged illness. He fulfilled his role in an exemplary manner, acting with integrity and enthusiasm and was admired both as a person and for his positive and thoughtful contributions. He will be sadly missed.

Issues considered by the Pension Board 2019 - 2020

Agenda Item	17 Jul	12 Nov	5 Feb	31 Mar#
LGPS Update	•	•	•	•
Administration KPI Report	•	•	•	
Pooling Update	•	•		•
Funding Strategy Statement			•	
Member Development Programme			•	
Pension Fund Budget	•		•	
Actuarial Valuation			•	
Treasury Management Policy			•	
Treasury Management Annual Report	•			
Working Party Minutes	•	•	•	•
Scheme Pays Policy	•			
Draft Annual Board Report		•		
Risk Register	•	•	•	•
Audit Findings Report, Annual Report & Accounts	•			
Catalyst Fund Update		•		
The Pension Regulator Engagement Report		•		
Audit Plan				•
Training & Development Opportunities	•	•		
Compliance Manual		•		
Gifts & Hospitality				•
Governance Statement		•		
Property Arrears			•	
Internal Audit Plan and Report	•			
Pension Board Revised Terms of Reference		•		
Wirral Council Motion	•			
Good Governance Project			•	
Internal Management			•	
CEM Benchmarking				•
Admission Body Application				•
Write-off of Irrecoverable Pension Payments				•

Meeting cancelled due to CV-19

A work plan for 2019/20 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies.

Pension Board Work Plan 2020 - 2021

Agenda Item	8 Jun (Briefing)	14 Sep	10 Nov	30 Mar
LGPS Update	•	•	•	•
Administration KPI Report		•		•
Pooling Update	•	•	•	•
Audit Plan	•			•
Employer Covenant Review	•			
CEM Benchmarking	•			•
Supreme Court Ruling	•			
Member Development Programme				•
Pension Board Development Programme			•	
Risk Register	•	•	•	•
Working Party Minutes	•	•	•	•
Pension Board Annual Report		•		
Investment Performance		•		
Audit Findings Report			•	
Annual Report & Accounts			•	
Pension Fund Budget				•
Business Plan		•		
Gifts and Hospitality Register		•		
Revised Pooling Guidance			•	
Catalyst Fund Update			•	
Revised Investment Strategy Statement			•	
Compliance Manual			•	
Bond Review			•	
Customer Service Charter				•

Pension Board Attendance Record 2019-20

PENSION BOARD	DATE OF APPOINTMENT/ DECLARATION OF INTEREST	PENSION BOARD MEETINGS 2019 - 2020			
		17 JUL	12 NOV	5 FEB	31 MAR
John Raisin (Chair)	11 March 2015	•	•	•	CANCELLED
Geoff Broadhead	13 March 2015	•		•	
Donna Ridland	12 March 2015	•	•	•	
Paul Wiggins	5 March 2015	•		•	
Roger Irvine	27 February 2017	•	•	•	
Patrick Moloney	9 March 2015	•		•	
Lyn Robinson	3 January 2018		•	•	
Peter Fieldsend	27 June 2019	•	•		

Training & Events Record 2019-20

ATTENDANCE RECORD	LGPS Local Pension Board Summer Seminar	LGPS Local Pension Board Autumn Seminar	LGPS Members Autumn Seminar	PLSA Annual Conference	PLSA Local Authority Update	CIPFA Pensions Network Conference	MPF Annual Conference	LAPFF Bournemouth	LGPS Governance Conference	LGPS Local Pension Board Spring Seminar	LGPS Local Pension Board Members Spring Seminar	PLSA Investment Conference
	26 JUN	7 OCT	9 OCT	16-18 OCT	12 NOV	13 NOV	28 NOV	4-6 DEC	23 JAN	17 FEB	20 FEB	11-13 MAR
John Raisin (Chair)	•	•				•	•				•	
Geoff Broadhead												
Donna Ridland			•	•			•	•	•		•	
Paul Wiggins												
Roger Irvine				•	•		•	•				•
Patrick Moloney				•			•			•		
Lyn Robinson												
Peter Fieldsend												

IMWP & GRWP Attendance Record 2019-20

IN ATTENDANCE	IMWP	GRWP	IMWP	GRWP
	14 NOV		25 FEB	
John Raisin (Chair)			•	•
Donna Ridland	•	•		
Patrick Moloney			•	•

Costs of Operation

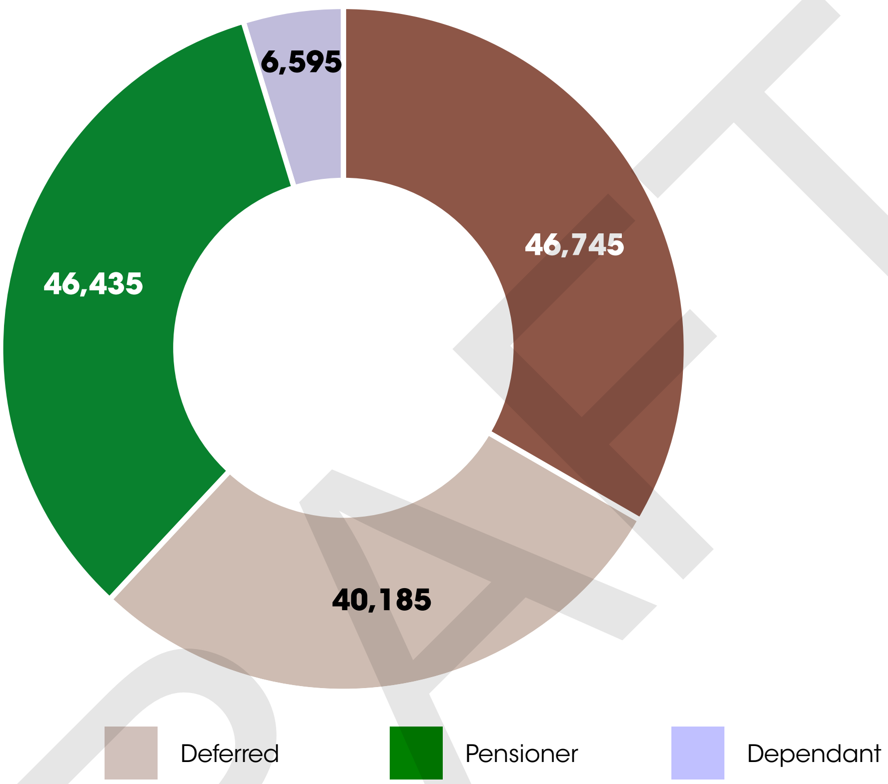
	2019/20 £
Conference	1,535
Travel	2,316
Allowances	18,506
Other	642
Total	**22,999**

There have been no matters of concern to raise with Wirral Council, the Administering Authority.

A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 2 November 2020.

Membership Statistics

Membership as at 31 March 2020



Number of Members by Age Band

Status (age in years)	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40-44**	**45-49**	**50-54**
Active				348	1,741	2,906	3,683	4,561	4,819	6,437	8,060
Deferred				3	283	1,530	3,599	4,767	4,759	6,405	8,621
Pensioner							4	12	26	128	411
Dependant	2	21	47	94	44	8	17	17	30	61	147

Status (age in years)	**55-59**	**60-64**	**65-69**	**70-74**	**75-79**	**80-84**	**85-89**	**90-94**	**95-99**	**100+**	**Total**
Active	8,039	4,773	1,166	212							**46,745**
Deferred	7,464	2,369	324	54	7						**40,185**
Pensioner	3,341	8,993	10,868	9,783	6,010	3,932	2,028	735	149	15	**46,435**
Dependant	307	433	654	963	1,029	1,081	963	515	138	24	**6,595**
										Total	**139,960**

Key Membership Statistics 2016 - 2020

Year	**Active**	**Deferred**	**Pensioner**	**Dependant**	**Total**
31 March 2020	46,745	40,185	46,435	6,595	**139,960**
31 March 2019	46,726	40,259	45,038	6,547	**138,570**
31 March 2018	49,151	38,376	43,495	6,665	**137,487**
31 March 2017	47,206	38,368	42,194	6,571	**134,339**
31 March 2016	46,221	37,136	41,136	6,588	**131,081**

Scheme Administration Report

The Administration Team

The Administration Team's core purpose is to ensure that our members receive their pension benefits as they fall due, and to provide clear information about the benefit options available so they can plan for their retirement.

The Administration Team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members in terms of overall effectiveness and value for money. The Pension Regulator (tPR) also has an overriding scrutiny role to ensure the Fund's compliance with the LGPS Regulations and the overriding provisions of the Pensions Act 2004.

The administration function covers a wide range of activities; from processing member benefits, maintenance of the administration system to improve processing capabilities, data quality and regulatory compliance, through to the onboarding of our employers and engagement with our customers.

The team is constantly evolving to comply with regulatory requirements, adhere to industry best practice and service the needs of both our membership and employer base.

Extraordinarily, during March and in the space of a few weeks, the COVID-19 pandemic led to the forced transformation and flexing of working practices to enable staff to deliver effective remote services to members and employers. Given the challenges faced across the pensions industry, the Fund has adapted to comply with the multitude of operational guidance issued by tPR and the Pension Administration Standards Association. We have demonstrated resilience by undertaking the full range of statutory duties in addition to those directed by the regulator.

2019/20 has been a busy year for the team with the migration of its core administration system to an integrated benefit calculation and document management solution, alongside the collaborative work programme between the Fund, the Actuary and employers to complete the 2019 triennial valuation.

Aligned with the objective of improving customer experience, work has been scheduled to review our customer surveys and the Fund's website to ensure we provide the information and support necessary to meet customer needs.

Statutory Framework of LGPS

The Scheme is a public service pension scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG). It is a contributory defined benefit scheme which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants, along with ill health, redundancy, and death cover.

Employees of all local authorities and many other public bodies in Merseyside have automatic access to the LGPS via the Fund and a wide range of other bodies, providing a public service or undertaking a contract, are also eligible to join the Fund via a resolution or admission agreement.

Employer Base

Our employer base is now in excess of 200, with the number growing further as the academisation of schools and the outsourcing of facility management continues at pace.

Furthermore, the increase in the number of third-party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer of complexity to the processing and provision of data. A list of the participating employers is shown at **Appendix A.**

Value for Money

To ensure the effectiveness of the administration services, the Fund is monitored through internal and external audits and, as covered later in the report, during 2019/20 the Fund engaged in a benchmarking exercise with other local government, public and private pension funds which provides a comparison of administration cost and service score.

The Fund continues to invest in resources and technology as detailed throughout the report and this demonstrates the commitment to ensure value for money for our stakeholders.

LGPS2014 - Scheme Design

On 1 April 2014, the career average revalued earnings (CARE) scheme was implemented and replaced the final salary scheme in respect of future accrual of pension benefits.

The LGPS:

- has a normal pension age equal to State Pension Age (minimum age 65)
- gives a pension for each year at a rate of 1/49 of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (although benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation-proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.

Additionally, protection is given to members who were contributing prior to 1 April 2014, including the following key provisions:

- preserve member benefits accrued under the former LGPS regulations
- retain the final salary benefits and Normal Pension Age of 65 in respect of pre-2014 membership
- provide an 'underpin' for people born before 1 April 1957 to ensure they do not suffer any detrimental loss from the introduction of the new Scheme
- carry forward the member protections under the '85 Year Rule' for voluntary retirement from age 60
- the ability for employers to switch on the '85 Year Rule' in regard a member's benefits if they voluntarily retire between age 55-60.

Legislative Change

To assist Funds in the management of employer risk, the principal regulations were amended during the year by the following statutory instrument:

The Local Government Pension Scheme (Amendment) Regulations 2020

The above regulations clarify the intent of the previous regulations, introducing the requirement to pay exit credits in relevant funding scenarios where an employer leaves the Fund from 14 May 2018.

The change in provisions provide Funds with discretion regarding the amount of any exit credit payment due to an outgoing employer. In applying its discretion, the Fund must consider any risk sharing arrangements in place between the sponsoring employer and the contractor, and consistently apply its policy and governance requirements documented in the Funding Strategy Statement.

The regulatory changes came into force on 20 March 2020 with retrospective effect to 14 May 2018.

Changes to The Tapered Annual Allowance from 6 April 2020

In the Budget on 11 March, it was announced that the tapered Annual Allowance will be amended such that it only applies to individuals with 'adjusted income' (broadly total taxable income from all sources plus the value of pension accrual) of over £240,000; this is compared to the 2019/20 tax year where it applied to individuals with adjusted income over £150,000.

The minimum level to which the Annual Allowance can taper down will reduce from £10,000 to £4,000, which will only impact people with an adjusted income in excess of £300,000. This means that the tapered Annual Allowance is expected to affect fewer people than previously.

In addition, as set out in the current legislation, the Lifetime Allowance (LTA) increased to £1,073,100 from 6 April 2020 (in line with the increase in CPI to September 2019 of 1.7%).

Cost Cap Process and McCloud Update

The review of the 2016 Scheme Valuation by the Government Actuary Department determined that the cost of the LGPS has fallen below the 19.5% future service target cost. Therefore, a number of changes, in-line with the cost cap process, were proposed to improve the benefit structure with effect from 1 April 2019.

However, the cost cap process was pended in January 2019 as a result of the highly publicised McCloud case. Consequently, no benefit changes will be implemented until a remedy has been agreed to extend protections to all active members of the Scheme at a prescribed date yet to be agreed.

Despite the challenges that funds are facing, evidence suggests that the McCloud remedy is continuing to progress.

A McCloud Q&A was released for Administering Authorities on 30 March 2020, that:

- Outlined the potential timescales, outcomes, and the impact on the cost cap process. As part of this, the next steps include deciding which members will be protected, the extent of the protection, the effect on other benefits (e.g. transfers, spouses etc.) and ensuring that the remedy is robust and comprehensive for the LGPS.

- Confirmed the setup of two working groups to assist with the development of the remedy; a policy group to assist MHCLG and a larger implementation group (which will include member representatives, actuaries and software providers) to consider the steps of implementing the remedy.

- The main challenge for both the Fund and employers, once the remedy is confirmed, will be the level of input required by administrators. The potential burden on administrators will be material, as they will be required to gather member data, update records, complete calculations, uplift pensions in payment and contact affected members to inform them of any changes.

MHCLG's consultation and amendment regulations on the revisions to the statutory underpin are still awaited at the time of writing this report.

Scheme Consultations

During the year, the Fund responded to the consultation on the £95k 'exit cap' and changes to the Local Valuation Cycle and the Management of Employer Risk. The Fund response to both consultations focused on the policy objectives, technical provisions and ease of application.

£95k Exit Cap

For some time now, the Government have been planning to introduce a £95,000 (£95k) cap to exit payments for public sector bodies. The original Government proposals were issued in summer 2015 and finally on 10 April 2019, the Government announced a final consultation, which closed on 3 July 2019.

The cap limits the exit payments made to employees of public sector bodies. The proposed cap of £95k will cover the total value of exit payments made by an employer and includes the strain cost of early payment of pension and redundancy payments, plus any other compensation or severance payments (e.g. pay in lieu of notice, enhanced employer compensation, lump sum payments etc.).

The Fund highlighted that the draft regulations contained several technical inconsistencies and do not provide details of the impact on the LGPS. As such, it is the Fund's view that a further consultation is required to amend the LGPS provisions in regards accessing benefits on redundancy grounds and to introduce a standard approach to calculate the strain payments across the public sector.

The Government response to the consultation was still awaited at the time of writing this report.

Changes to the Local Valuation Cycle and the Management of Employer Risk

The consultation contained proposals to amend the LGPS regulations 2013 in the following areas:

- Amendments to the local fund valuation from a triennial to a quadrennial cycle to align with the Scheme revaluation
- A number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- Proposals to introduce flexibility for exit payments
- Proposals for further policy changes to exit credits
- Proposals to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer LGPS membership to new employees.

In general the Fund response supported the overall intent of the proposals, as the changes appear sensible and introduce flexibility for employers in managing their exits from the Scheme, with two significant exceptions in regard to the increase in the valuation cycle and the proposed discretion for higher and further education corporations not to offer access to the LGPS for new employees.

Specifically, the Fund does not agree with the transition to a four-year valuation cycle as this will weaken the ability to manage risk effectively. Extending the cycle is counter to the agile strategies the Fund has implemented to reduce volatility in funding during the inter-valuation period. That said, it recognises the Government's intention to align all public sector scheme valuations on a four-year cycle. Therefore, whilst we do not agree with the four years, the proposal to allow interim valuations is acceptable as this would provide the flexibility required in managing funding, investment, and covenant risk.

As the pandemic is likely to result in acute short-term financial pressures on employers, with the potential for long-term stressors on covenant, the Fund is currently engaging with MHCLG to provide evidence of the requirement to expedite the parliamentary scheduling to implement the proposals with regard to the deferred debt arrangements and the flexibility to vary employer contribution rates, mid-valuation.

The Fund will continue to plan and adapt to changes as they are introduced, keeping members and employers updated through a programme of regular briefings and customer engagement.

Key Projects and Developments

2019 Triennial Valuation

The collaborative work between the Fund and employers to improve membership data took priority over the first quarter of 2019/20 to ensure the valuation data submissions were as clean, complete and accurate as possible.

Resources were redirected across the administration team to process all early leaver, death and aggregation casework in-order to inform the valuation calculations and to provide assurance to employers that the final results reflect the membership status of their current and former employees.

Following this activity to resolve data gaps, the valuation data extract was provided to the actuary within the scheduled deadline of 30 June 2019.

The actuary confirmed that this focused data quality activity, undertaken by the Fund and employers, reduced liabilities in the region of £127m at a whole Fund level.

A key focus during the latter part of 2019 was to discuss individual valuation numbers with Scheme employers and reach agreement on affordable three-year contribution plans, in line with statutory solvency and long-term cost efficiency requirements.

A number of employer forums were arranged to explain the valuation approach and to open the consultation on the Funding Strategy Statement. The purpose of the forums was to assist employers in presenting an informed response to the consultation to explore variants to the actuarial assumptions and provisional employer contributions schedules.

Discussions with employers regarding funding plans continued until the end of February 2020, allowing officers to inform employers of the final numbers and the actuary to sign-off the rates and adjustment certificate by 31 March 2020.

In tandem with the valuation work and as part of the Fund's wider risk management strategy, an exercise was undertaken to identify and monitor the covenants of employers that potentially pose a high risk of default. The results of the covenant analysis fed into the setting of the contribution rates and the investment strategy for each employer.

Data Quality and Annual Benefit Statement Activity

The Fund continues to develop its monitoring and reporting capabilities for measuring the quality of member data for a number of purposes; including valuation, pensions increase and for statutory reporting on common and Scheme specific data required by the Pensions Regulator (tPR).

Work continues at a national level to develop standardised Scheme data requirements for LGPS Funds and Fund Officers are feeding into the debate on the development of standardised measures and reporting metrics.

As documented in last year's Administration Report, the Fund self-reported to tPR our inability to produce annual benefit statements for all active and deferred members. This inability was linked to gaps in data held by the Fund as well as the performance of employers in delivering timely data files, together with the quality of those files.

In 2018/19 the Fund was only able to produce active benefit statements for 90% of its active membership by the 31 August 2018 deadline, increasing to 98% at the end of the rolling programme of production in March 2019.

To increase the number of statements issued and improve compliance against Code of Practice No 14, a further programme of focused data management and engagement with employers took place during 2019/20. This activity resulted in 97% of actives and 98% of deferred benefit statements being produced by 31 August 2019.

Timely employer data submissions and positive responses to data improvement plans have aided improvement over the last year, with work ongoing to identify and address the cases where the Fund is still unable to issue a statement.

Integrated Pension Administration System Migration

In the summer of 2018, the Fund started a project to migrate over eight million documents from the Civica document management system into an integrated system provided by Aquila Heywood. The project completed in June 2019 and internal audit conducted a review of the migration controls and provided a conclusive report to provide stakeholders with reasonable assurances that the data migration had been effectively completed.

Alongside the document migration, a substantial review of the day-to-day management of the business was undertaken to ensure the operational and workflow processes, across the disparate service areas, were compliant with statutory requirements and effective in delivering good outcomes for members accessing the service.

In February 2020, the IT Team started a project to update the internet-based member self-service system, 'MyPension', to an improved version that is more adaptable to mobile phone usage. The launch of the new 'MyPension' upgrade is expected to take place during 2020/21 with increased functionality for members as part of the Fund's ongoing Digital Transformation Programme.

The Pension Regulator Single Modular Code

As part of the Regulator's clearer, quicker, tougher campaign, it has been working to develop clarity on its expectations in the management of pension schemes through the development of a single code of practice.

The Regulator will shortly begin the process of merging its fifteen codes of practice into a single code and will issue a consultation with a focus on developing the supervisory regime across all UK pension schemes.

With Code of Practice No 14 being incorporated into the new single code, it will be necessary for Funds to assess their compliance with this new code, including any new requirements this may place on Scheme Managers or the Pension Board. This will include how compliance will need to be demonstrated along with the expected requirements of the Good Governance review.

Collaboration with Peer Funds, Scheme Employers and National Bodies

During 2019/20 the Fund has worked closely with a number of other LGPS Funds on national groups to drive improvements to administration procedures, share best practice and develop initiates as follows:

- Develop communications for the wider LGPS, in conjunction with the Local Government Association (LGA), to include the design of annual benefit statements and production of member videos
- A longstanding founder member of the LGPS National Frameworks, we have supported in the rolling-out of a number of new frameworks, as well as revisiting existing ones, to enable more efficient and effective procurement within the LGPS.

In addition, we have engaged at a national level with the LGPS Scheme Advisory Board, the Chartered Institute of Public Finance and Accountancy and the Government Actuary on administration and funding matters. This engagement has enabled us to keep pace with LGPS and pensions industry practice and represent the Fund's views and those of its stakeholders in the wider arena.

Our large employer Pension Liaison Officer Group forums have provided valuable feedback during the year and served as a useful resource to the Fund in establishing realistic operational process when introducing service improvements and regulatory change.

These employer forums are important as they enable Fund officers to cover topical issues and share information on planned activity and service developments.

Review of Fund Policies

Funding Strategy Statement

A detailed review of the Fund's funding strategy (FSS) has been undertaken during the year in conjunction with the 2019 triennial valuation. The potential impact on the costs of scheme benefits following any remedy of the McCloud ruling was a key consideration in setting funding parameters. Overall improvements in the funding level has created an opportunity to review investment risk and the attendant actuarial assumptions to reduce volatility in contribution schedules.

The Pension Committee approved the updated policy at its meeting dated 3 February 2020, taking full consideration of the Scheme employer and Pension Board responses to the consultation exercise.

Operational Improvements

Project Towards Monthly Data Collection

In October 2019, the Fund procured the iConnect service as part of the integrated pensions administration offering from Aquila Heywood.

The iConnect service is a secure, cloud-based platform which accepts employer data submissions on a monthly basis with the appropriate straight-through processing to the Fund's pensions administration system. We are working in partnership with a small number of early adopter employers in developing the documentation, scenarios and required process and governance changes that will be of benefit to all other employers within the Fund. Preliminary work started in December 2019 and will continue during 2020. It is expected that the COVID-19 pandemic will affect the delivery of this early adopter work, but the Fund will share progress, lessons learned and an adoption plan with the rest of the employer base, once it has been developed.

Digital Transformation Programme

Work continues to develop our systems through digital transformation, to drive business efficiencies and cost savings, whilst improving the service we provide to our members.

During the year, the Fund introduced the use of barcodes on its outgoing forms relating to retirements, deferred benefits into payment and transfers. On being returned to the Fund, the process of scanning the document will read the barcode and index it to the member's computerised record, for pension officers to progress the case to the next stage of the process.

Streamlining of TUPE Operational Processes

The ECM team has modified the administration procedure for TUPE transfers to streamline the process, gain efficiencies and reduce manual input. The member communications and option forms have also been updated to permit immediate access to retirement benefits for those over age 55 or the option to keep benefits separate from the ongoing employment - in compliance with the regulations.

Mortality Screening and Deferred Member Tracing

The Fund has utilised the National LGPS Framework to procure a mortality screening service for pensioner and deferred members; to assist in reducing processing times at retirement, potential data breaches and risks of overpayments.

The deferred member screening activity involves an evaluation of address contact information ahead of normal retirement dates, with a mortality screen against key death registers. This will minimise any delay in processing pension payments in the event of a member's death.

Customer Engagement

In line with its Business plan, the Fund has expanded the customer feedback surveys related to specific life events (joiner, transfer, divorce, retirement, etc).

The purpose is to understand how information is received by our members, how it can be improved to enable members' understanding and to evaluate their experience in engaging with the Fund.

This feedback will provide valuable insight into service quality and highlight areas for improvement and development to make our members' journey as smooth and effective as possible.

Strategic Focus, Planning and Operational Cost

Service Planning

The Fund's Management team maintains an annual 'Business Plan' which is shared with, and monitored by the Pension Board and the Governance and Risk Working Party (GRWP) a sub-group of Pensions Committee. This working party meets twice a year to review officer progress against documented objectives and commitments.

The contents of the 'Business Plan' are shared with all the officers and there is a direct link with the performance appraisal process of staff.

Staff Training and Development

The Administration Team has a solid LGPS knowledge base. This collective expertise, together with the high-quality administration systems and record keeping improvement plans, enables us to deliver an effective and efficient service to our members and employers.

As we continue to evolve our operational design and advance service delivery, we ensure we develop our staff to support the changes to working practices.

The Fund provides a comprehensive training programme for its staff and a number have made good progress with their Chartered Institute of Payroll Professional qualification during the year. Training opportunities have also been provided to expand technical knowledge within the Team.

The Fund keeps abreast of best practice by participating in collaborative groups such as; the Local Government Association Communications Group, the Shrewsbury Pensions Officer Group and the Metropolitan Pension Fund Group. These groups all offer opportunities to discuss topical pension issues and to share best practice and innovations enabling greater cross-function working with other LGPS Funds.

Operational Costs

The Fund's operational costs are reviewed by the Pensions Committee, which approves the annual operational budget. Actual spend is monitored throughout the year by the Fund's Management team and overall spend is reported in the annual Report & Accounts.

The MHCLG surveys funds annually to collect administration and fund management costs in the LGPS - this is referred to as the 'SF3' statistical return.

Submitted under Section 168 of the Local Government Act 1972, the data provides the Government with a benchmark of Scheme costs, and is also used in compiling the National Accounts, showing the role of pension funds in the economy.

The administration costs reported in the 2018-19 'SF3' statistical return was £19.61 per member.

In 2019, the Fund participated in a new administration benchmarking initiative by the company CEM. With eight other large LGPS Funds, the exercise produced a comparative report between the participating LGPS Funds and six large public or private schemes in the UK. This report not only provides a comparative cost per member but also a service quality assessment. The Fund was assessed as offering 'median member service at a low cost' by CEM when considering our cost effectiveness against the thirteen other peers.

It is anticipated that the Fund and others will continue to participate in the CEM initiative as the process is refined further during 2020. In the meantime, the officers are using the report to identify areas for improving its service delivery to members.

Equality and Diversity

The Fund aims to deliver accessible, high-quality, value for money services to all of our customers, without discriminating against any social grouping by age, gender, race, disability, sexual orientation or religious belief.

All necessary and reasonable adjustments are made to ensure that members with additional needs can access our communications.

Member Communications

Our member services programme and events continue to provide increasing face-to-face help and support across the employer base, presenting courses/surgeries, as requested, at employer workplaces.

The principal communication issued to active and deferred members each year is the Annual Benefit Statement (ABS) and electronic versions have been available electronically since 2013 via the Fund's online 'MyPension' service.

Fund officers continue to work with employers in promoting the 'MyPension' service, to further encourage active members to register. The Fund provided employers with suitable text for staff newsletters, briefings, intranet sites and broadcast emails. On production of the statements, employers were asked to utilise the same communication channels to inform members of their availability online.

Presentations for Scheme Members

	Events	Approx. Attendees
Retirement Planning Course Hosted at Employer Premises	8	165
Presentations about the LGPS Hosted at Employer Premises	23	573
Total	**31**	**738**

Employer Communications

We continue to deliver our practitioner workshops to support new employers, those with staff changes or a need for refresher training. These workshops help to increase the understanding of employer responsibilities and how the Fund and employers work together to deliver benefits to members.

The Fund has a secure employers' website where employers can obtain forms, guidance notes and access payroll and HR administration guides. The Fund does not publish a periodic employer newsletter, but uses the employers' website to announce news, revisions to forms and other pertinent information. Each registered user receives an email notification of any news update or change to the administration of the Scheme.

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund-specific documents provide detailed information on administrative and operational practice. Practitioner training sessions are provided by Fund officers to provide guidance on employer duties, operational practice and direction in completing Fund forms.

Data Security

In administering the Scheme, the Fund collects, records and maintains personal data on members, former members, pensioners and beneficiaries.

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection & Information Security, and are required to undertake Information Governance training
- New staff, as part of their induction, have the responsibilities and policies explained, and their understanding verified, by the successful undertaking of an online test
- All administration data is stored electronically, and any paper records are securely destroyed
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication or a Wirral Council authorised device)
- Where person identifiable data has to be transferred off-site, the Fund uses secure means, be it Transport Layer Security (TLS) email or encrypted data containers.

Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	94
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	96
4. Provision of Inward Transfer Quotes	10 days	95
5. Notification of Deferred Benefits	22 days	97
6. Provide Valuation in Divorce Cases	10 days	95
7. Respond to Members' Enquiries	10 days	84

(Details given in respect of 12 month period to 31 March 2020)

Internal Dispute Resolution Cases

Members who disagree with decisions taken by their employer or the Administering Authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS regulations. The IDRP is a formal appeals procedure which contains two stages. The first stage allows a member to ask the body who originally made the decision, to review it, that is, either the employer or the Administering Authority. The second stage allows a member, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the Administering Authority to review the disagreement.

Appeals Against Employer Decisions

Employer	Number	Appeal Decision
Merseytravel		
Release of deferred benefits on ill health	1	Upheld
Wirral		
Award of ill health Pension	1	Dismissed
Award of ill health Tier	1	Dismissed
Liverpool		
Release of deferred benefits on ill health	1	Dismissed
Total	**4**	

Appeals Against Fund Decisions

Reason for Appeal	Number	Appeal Decision
CETV Freedom & Choice	1	Partially Upheld
Total	**1**	

Appeals to the Pensions Ombudsman

Reason for Appeal	Number	Appeal Decision
Changes to late retirement actuarial increases	1	Dismissed
Total	**1**	

The Pensions Ombudsman upheld the Funds decision that the Fund was not statutorily required to inform members of a change in the Government Actuaries Department factors.

Investment Report **Year ended 31 March 2020**

The global economy experienced a slower pace of growth in 2019 as the introduction of tariffs by the US and the inevitable response from China had a sizable impact on global trade. The bigger hit was taken by China as both their imports and exports fell substantially. So, whilst economic momentum was supported by domestic activity, the rate of expansion for China during the second quarter of the year was at the slowest pace since 1992. Knock on effects of the dispute reverberated through to other regions, particularly those most open to trade, such as Japan, South Korea and Singapore. In Europe, Germany narrowly avoided a recession as their manufacturing sector felt the strain. Fortunately, the demand for services across developed countries, particularly in the US, remained robust being sustained by high employment levels and real wage growth.

Somewhat perversely President Trump's trade war with China worked to drive financial markets higher through 2019. The slower global growth was the spur for a significant change in policy from the US Federal Reserve and it was this element that lifted the spirits of equity and bond investors. In early 2018 expectations were set for a continuation of interest rate hikes that would have taken the US Federal Funds rate beyond the 2% - 2.25% range that prevailed at the beginning of the year, but as global growth slowed into the Spring of 2019, the US Federal Reserve hinted towards a looser monetary stance. On 1 August it implemented the first of three 0.25% cuts. To the delight of investors this more accommodative stance was followed by easing measures elsewhere as the European Central Bank acted by cutting its official interest rate into even deeper negative territory and Central Banks across Asia and Latin America made cuts to their key lending rates.

For UK markets, investors had to contend with the additional uncertainties brought on by the UK's decision to leave the European Union. Boris Johnson replaced Theresa May as Prime Minister in July and brought back a renegotiated Brexit deal. However, parliamentarians were unable to agree on which way to move forward; be it through the revised deal, a no-deal option or a cancellation of Brexit. Eventually the government won support for a general election and the nation went to the polls on 12 December. The result was a resounding victory for the Conservative Party and UK markets were able to breathe a sigh of relief in that not only had some certainty around Brexit been restored, but the prospect of a less capital market friendly government had been removed.

The biggest shock to the markets, however, came during the opening quarter of 2020 when the world's attention moved firmly to the emergence and spread of the Covid-19 pandemic. As infection rates and deaths spread across the globe governments took drastic action to contain the virus causing economic activity to virtually stall. All of this had a crushing effect on investor risk appetite and global equities, which had reached new a new high only on the 17 January, fell by over 30% in Sterling terms in the period of a month.

Thankfully, governments and monetary authorities across the globe responded quickly to the crisis. The US Federal Reserve cut interest rates by 150 bps in March and announced plans to restart asset purchases and support market liquidity. US Congress passed a $2.2 trillion spending bill to help firms and individuals impacted by shutdown measures. In the UK, the Bank of England cut rates from 0.75% to 0.10%. Meanwhile, the Government announced a huge fiscal package, stating that it would pay temporarily laid-off employees up to 80% of their salaries (capped at £2,500 per month). Sterling briefly dropped to a low against the dollar that was last seen in the 1980's.

Given the macro environment it is unsurprising that equity markets across all regions delivered negative returns for the one-year period to the end of March 2020. Japan and North America fared better than other regions as both equity markets have large exposures to technology companies which in some instances are beneficiaries of an economy in lockdown. The other end of the performance table is occupied by UK equities, Asia Pacific equities and Emerging Market equities, which fell by 18.7%, 19.4% and 13.2% respectively. These regions have greater exposure to cyclical sectors of the economy where the Covid-19 impact was most acutely felt such as Energy, Commodities, Banking and Airlines.

Bond markets reflected investor preference for defensive assets and UK government bonds (Gilts) provided returns to investors of 9.9% over the period. Corporate bond performance, whilst positive at +1.5%, was not quite so stellar as credit spreads over government bonds widened in Q1 of 2020 and some borrowers, such as Ford, Lufthansa and Heinz had their debt downgraded to below investment grade.

The annualised performance of the Fund against its benchmark for 1, 3 and 5 year periods is shown below.

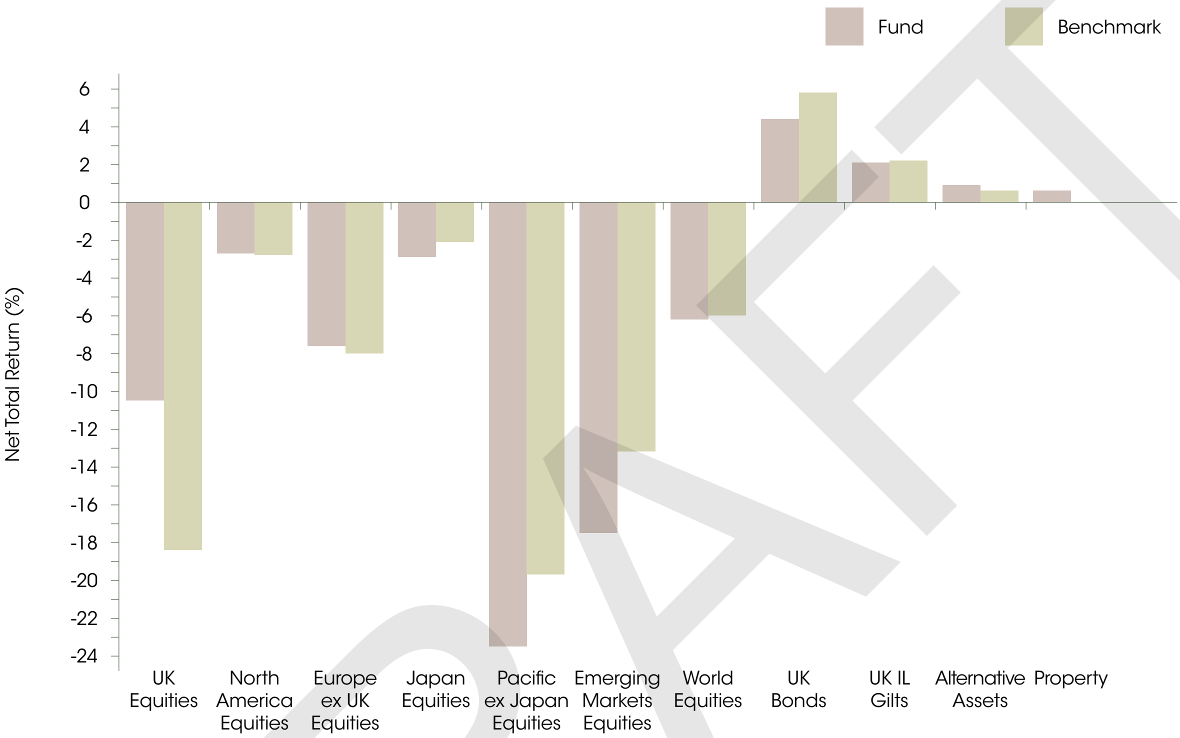
	1 Year	3 Year (Annualised)	5 Year (Annualised)
Merseyside Pension Fund	-2.13%	2.35%	5.68%
Benchmark	-5.89%	0.52%	3.57%
Relative Return	3.76%	1.82%	2.11%

(Source - Northern Trust)

Merseyside Pension Fund returned a negative 2.1% in the financial year to the end of March 2020 compared to its bespoke benchmark return of minus 5.9%; an outperformance of 4%. This was behind the Consumer Price Index and the increase in Average Earnings which advanced by 1.5% and 2.4% respectively. Over 3-year and 5-year periods the Fund returned 2.4% and 5.7% respectively. The longer-term, 5-year performance number is ahead of both the CPI Inflation number (1.7% annualised) and Average Earnings number (2.5% annualised).

The Fund's 1-year investment performance against its benchmarks across all asset classes is illustrated in Figure 1 below:

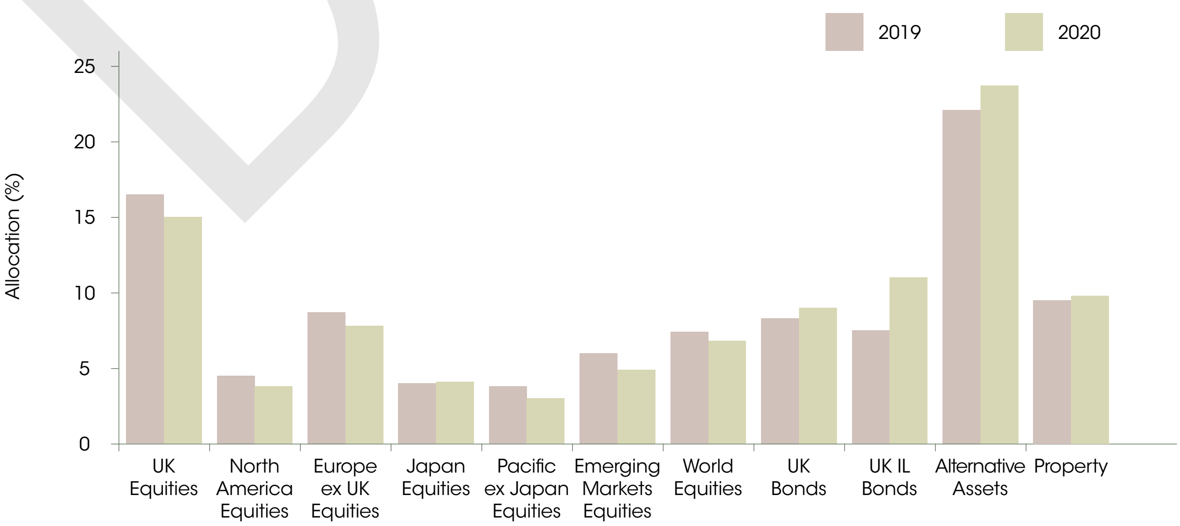
Figure 1.
Net Total Return by Asset Class for Year Ending 31 March 2020



	UK Equities	North America Equities	Europe ex UK Equities	Japan Equities	Pacific ex Japan Equities	Emerging Markets Equities	World Equities	UK Bonds	UK IL Gilts	Alternative Assets	Property
Fund	-10.5	-2.7	-7.6	-2.9	-23.5	-17.5	-6.2	4.4	2.1	-0.9	0.6
Benchmark	-18.4	-2.8	-8.0	-2.1	-19.7	-13.2	-6.0	5.8	2.2	0.6	0.0

Figure 2 illustrates the asset allocation of the Fund on 31 March 2020 compared to 31 March 2019.

Figure 2.
Asset Allocation Change 2019 vs 2020



	UK Equities	North America Equities	Europe ex UK Equities	Japan Equities	Pacific ex Japan Equities	Emerging Markets Equities	World Equities	UK Bonds	UK IL Bonds	Alternative Assets	Property
2019	16.5	4.5	8.7	4.0	3.8	6.0	7.4	8.3	7.5	22.1	9.5
2020	15.0	3.8	7.8	4.1	3.0	4.9	6.8	9.0	11.0	23.7	9.8

On 15 April 2019, the Fund implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark. The derivative strategy delivered profits of £215.5m over the period, going some way to offset losses experienced in the Fund's equity positioning.

Within equities, whilst the UK market was a laggard, the UK managers employed by the Fund performed well against the benchmark. Disappointment did come however from the active managers covering Asia Pacific ex Japan and the Emerging Markets where returns trailed their respective benchmarks.

An over-weight to Property and Alternatives Assets contributed to the outperformance.

Property returned 0.6%, compared with the benchmark performance of 0.0 %. Returns from property funds were solid, but the direct portfolio accounts for around two thirds of our property assets and here there was some pain experienced with properties having exposure to retail and leisure. Total income return for the direct portfolio was 6.4% which is higher than the benchmark of 4.5%.

Private Equity and Infrastructure led the returns within Alternatives Assets; being highly illiquid assets, they tend not to be sold off in periods when investors take fright. Opportunistic Credit and Hedge Funds however did fall in value over the period as the asset exposures within these areas more often have a higher immediate correlation with equity markets than Private Equity and Infrastructure.

Private Equity in particular will have some correlation with equities, but this will come with a lag.

Largest UK Property Holdings as at 31 March 2020

Holding	Market Value £'000
Fort Halstead	58,750
Tunsgate Square Shopping Centre, Guildford	35,000
Telegraph Road, Heswall	32,650
Mitre Bridge Industrial Estate, Mitre Way, London	25,800
Premier Park, Winsford Industrial Estate	24,500

Largest Infrastructure Holdings as at 31 March 2020

Holding	Market Value £'000
Iona Capital - bio energy	91,000
Clyde Wind Farm	42,000
Anglian Water Group	37,000
Fourth Ports Group	25,000
P3P - Hoddesdon & Belfast	23,000

In response to the Government's pooling initiative the 'Northern LGPS' was established by the local government pension funds for Greater Manchester, Merseyside and West Yorkshire. It is expected that the Northern LGPS will achieve significant cost savings and economies of scale through the pooling of assets. Merseyside Pension Fund's share of the Northern LGPS set up costs was £29k, with £16k in legal costs and £13k in other costs.

Merseyside Pension Fund is a member of GLIL (GMPF & LPFA Infrastructure LLP), an infrastructure investment vehicle initially set up a joint venture between the Greater Manchester Pension Fund and London Pensions Fund Authority. GLIL targets core infrastructure assets predominantly in the United Kingdom. On joining, Merseyside Pension Fund made a commitment to invest £125m, which was subsequently increased to £250m on 1 October 2018 and as at the end of March 2020 around 44% of this amount had been invested. Total committed capital to GLIL from its existing investors stands at £1.825bn, as at 31 March 2020.

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
UK Equities	**18.7**	
Overseas Equities	**34.3**	
US		5.3
European (ex UK)		8
Japan		4
Asia Pacific		4
Emerging Markets		6
World		7
Fixed Income	**18**	
UK Gilts		4
UK Index-Linked Gilts		10
Corporate Bonds		4
Property	**8**	
Alternatives	**21**	
Private Equity		5
Hedge Funds		4
Opportunities		5
Infrastructure		7
Cash		0
Total	**100**	

In 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pensions Fund established a collective private equity investment vehicle (NPEP). The initial close of NPEP occurred upon its creation in July 2018 with £1,020m of funding capacity. A first "Subsequent Closing" was held on 16 December 2019 which added a further £585m of funding, bringing the total to £1,605m. As at end December 2019 commitments of around £670m had been made to private equity funds, of which c£140m came from Merseyside Pension Fund.

Private market assets generally have costs that are met within the vehicle rather than through an explicit charge paid directly by Merseyside Pension Fund. These costs are not charged directly to the Fund Account, but are included in the fair value adjustments applied to the assets concerned within the Fund Account with performance reported on a net basis. The Fund aims to be both transparent and value-led in its investment approach and the table below shows costs during the current and previous financial year. The performance related fees relate to monies that have been paid out and do not include any accrued performance fee estimates.

Asset Class	31 March 2019 Management Fee £'000	31 March 2019 Performance Related Fee £'000	31 March 2020 Management Fee £'000	31 March 2020 Performance Related Fee £'000
Private Equity	6,751	5,379	7,825	2,388
Infrastructure	4,938	0	5,175	0
Property	4,662	1,501	4,763	460
Opportunities and Hedge Funds	5,868	4,355	5,777	596
Total	**22,219**	**11,235**	**23,540**	**3,444**

The increase in overall management fees has been driven by the uptick in fees paid to Private Equity and Infrastructure managers. Targeted exposure to Infrastructure has increased over the year and for Private Equity, Merseyside Pension Fund has moved away from investing in Fund of Funds vehicles. Fund of Funds often appear to have lower fees when data is collected, but managers here generally report on the top layer of fees omitting the underlying fund fees which if incorporated would take the all-in management fee to a number more than three times the original. Included in the Infrastructure and Private Equity management fee numbers for 2019/2020 are £164,151 for GLIL and £894,471 for NPEP. Investment Management figures of £17.2m for March 2020 and £16.9m for March 2019 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £26.9m and £33.5m, respectively.

Responsible Investment

Merseyside Pension Fund has a Responsible Investment policy that has continued to be developed in partnership with like-minded investors committed to integrating sustainability into investment decision-making and acting as stewards of the assets we own. The Fund is a member of the Principles for Responsible Investment (PRI) and has submitted reporting to PRI on its activities to implement the Principles over the 2019 calendar year. The Fund's most recently available PRI Transparency Report can be viewed at: **unpri.org/signatories**

The Fund works with corporate governance specialists PIRC to vote on all its eligible shareholdings in public listed companies, in line with PIRC's recommendations (based upon PIRC's annually updated Shareholder Voting Guidelines). Full disclosure (by company and year) of those recommendations is accessible at: **mpfund.uk/voting**

Northern LGPS has committed to co-ordinating activity on proxy voting across listed equity holdings. In addition to public reporting on voting activity through the Northern LGPS website, the pool's RI Policy commits it to pre-disclosing voting intentions and to ensuring vote maximisation by restricting its securities lending programme around 'proxy voting season'. Northern LGPS has appointed PIRC as its RI Adviser to ensure that the pool's voting policy is consistent across the partner Funds.

Addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work over the year. The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) provides a global framework to translate non-financial information into financial metrics.

In preparing the TCFD statement for inclusion in this Investment Report, the Fund has referred to the guidance in the PRI publication 'Implementing the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations: A Guide for Asset Owners (PRI, 2018)'.

Merseyside Pension Fund - TCFD Statement as at 31 March 2020

Governance

The Pensions Committee (as the Fund's governing body) has mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance especially from partner organisations such as IIGCC, PRI and the LAPFF) and receives regular reports on progress.

Strategy

MPF's strategy is based on the view that climate change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. The Fund has completed work on reviewing its investment beliefs and strategic framework (including asset allocation policy) to ensure that climate risk considerations are appropriately integrated.

Climate scenario analysis was undertaken by Aon (the Fund's strategic adviser) to model the resilience of MPF's investment strategy in four scenarios, as described in Aon's Climate Change Challenges paper. Under Aon's No Mitigation scenario (+4 degrees of warming), the severity of the risk was starkly illustrated:

- in 20 years, MPF's assets could be worth £9.5 billion less than assumed in the base case, equivalent to 26 years of projected 2020 pensioner out-go;
- 6% p.a. under-performance of the equity portfolio relative to the base case equity return over 20 years, equivalent to a 3.7% p.a. hit to overall expected returns over 20 years.

Risk Management

MPF acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management activity has been primarily on the mitigation of transition risk via ongoing decarbonisation efforts.

Targets and Metrics

Analysis of the equity portfolio, undertaken as at 31 December 2019, showed moderate carbon risk exposure measured at 6.8% lower than the portfolio's strategic benchmark
(Scope 1 & 2 emissions):

Portfolio carbon foot-print - 172.0 tonnes of CO2E/$M sales

Benchmark carbon foot-print - 184.5 tonnes of CO2E/$M sales

Source: Aon/MSCI

The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The allocation to infrastructure is set to increase significantly (from 7 to 11% approx.) as part of the Fund's revised strategic asset allocation.

Climate stewardship
As active members of the global Climate Action 100+ initiative, MPF has been supporting a number of prominent engagements with 'high carbon' companies with the objective of driving strategic change in these businesses to align them with the goals of the Paris Agreement. In addition to this, MPF was a co-filer of a climate resolution at a leading European bank's AGM that called for its lending practices to be brought into line with a net zero carbon pathway and increase the pace at which the financing of future carbon emissions will come to an end.

Northern LGPS Report

As Chairman of the Northern LGPS Pool Joint Committee I am delighted to be introducing this summary annual report for the Northern LGPS Pool. This was my first year as Chair of the Pool having taken over from Cllr Paul Doughty. I would like to thank my predecessor for the excellent job he did as chair and I hope going forward we can continue to build on the progress made under his tenure.

2019-2020 was a busy year for the Pool, which continues to evolve to meet the investment needs of its partner funds, employers and members. During the year GMPF and WYPF moved custody of their assets to Northern Trust, meaning that over £40bn of pool assets are now under a collective custodial arrangement. This has greatly enhanced the scope and timeliness of reporting and our ability to exercise shareholder rights.

Responsible Investment and Environmental Social and Governance continue to be at the top of our agenda. In conjunction with ShareAction and Barclays plc, we supported a successful climate resolution at Barclays' AGM requesting that the bank set and disclose targets to phase out the provision of financial services to the energy sector and gas and utility companies that are not aligned with the Paris Agreement. The proposal was the first to refer to the 'Just Transition' wording in the Agreement, which says that tackling climate change requires the transformation of sectors and economies with important implications for the global workforce.

In the last quarter of 2019-2020 alone we engaged with 90 different companies regarding issues across the environmental, social and governance spectrum, and we voted at 300 distinct meetings. We abstained or opposed shareholder votes on increased remuneration in 71% of shareholder meetings to avoid unfair remuneration practices. We have also filed shareholder resolutions for several large international companies where we felt labour rights and environmental concerns were not being properly addressed.

Northern LGPS also launched a thematic review of the housebuilding sector and conducted engagement with listed companies in the sector. The findings of the review are summarised in a report on the Northern LGPS website.

The Pool's direct infrastructure platform, GLIL, has recently secured a major new investment in Cubico, a leader in sustainable investments in the wind and solar power industries. Our pooled private equity vehicle, NPEP, made several fund commitments and has developed a co-investment arrangement with a leading manager to further enhance returns and reduce investment management costs.

This Pool prides itself on being cost efficient and we obtain independent benchmarking to understand our investment costs relative to global peers. The most recent benchmarking exercise placed the pool within the lowest cost 25% of its international peer group (which consists of 21 global pension funds ranging from £11 billion to £68 billion). This is a tremendous result which shows the value that economies of scale and a constancy of purpose can deliver.

The end of the year saw extreme volatility in most financial markets as governments around the world responded to the Covid-19 pandemic and 2020-2021 therefore promises to be a year of both great challenge and opportunity. Planned activity for the year includes taking further steps towards pooling property investments by progressing our property management framework and further deployment of capital to our existing direct infrastructure and collective private equity vehicles.

I would like to thank my colleagues on the Joint Committee and also the pensions committees, local pension boards and officers from each of the partner funds for their support and hard work over the year. I look forward to helping ensure the Pool's continuing progress over the forthcoming year. We believe we are the most cost-effective and efficient LGPS investment pool, with a simple, democratic governance structure that delivers sustainable financial returns to the benefit of members, employers and taxpayers.

Background

The Northern LGPS Pool is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) LGPS funds (the 'partner funds'). The combined assets of the funds stood at approximately £44bn as of 31 March 2020, which is invested on behalf of over 800,000 members and 1,100 contributing employers.

The Northern LGPS Pool's purpose is to facilitate via a simple and democratic governance structure, the pooling of assets and the sharing of services in order to achieve sustainable improved net investment returns for the partner funds.

History

The Northern LGPS Pool was formed in response to the Government's LGPS pooling agenda, which was first announced in 2015. The Government sought to increase the scale of LGPS investment mandates in order to reduce investment management costs and facilitate infrastructure investment to help drive growth in the UK economy.

Due to the existing scale of the three partner funds, the vast majority of the benefits of pooling for the funds are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments.

Therefore, the focus of the Pool has been on establishing vehicles which can make collective investments in alternative assets, in particular infrastructure and private equity.

The partner funds are the major investors in the GLIL direct infrastructure vehicle and also established a vehicle (known as 'NPEP') in 2018 to make collective private equity investments.

The Pool selected Northern Trust as its FCA regulated custodian to ensure the assets of the pool are held within a single permanent FCA regulated entity. The custodian acts as 'master record-keeper' for all assets of the partner funds and manages the calls and distributions in the Pool private equity vehicle.

Governance

The Northern LGPS Pool is not a standalone legal entity. It is a Local Government Joint Committee structure supported administratively by a Host Authority (currently Tameside MBC), which provides all administrative resources and facilities that may be necessary, such as preparing the annual budget and clerking services for the Joint Committee meetings.

The Pool is governed by an inter-authority agreement signed by the three constituent Administering Authorities. The agreement sets out the terms of reference for the Northern LGPS Joint Committee, which is the decision-making body for the Pool. The Joint Committee has been appointed under S102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the pooling of pension fund assets.

The Joint Committee may delegate certain functions to the Officer Working Group which is composed of the Directors of the partner funds. The Officer Working Group has the necessary technical skills to advise the Joint Committee on technical investment matters and is a central resource for advice, assistance, guidance and support for the Joint Committee.

The Administering Authorities retain full control of their individual funds' asset allocations and nominate members to the Joint Committee. Employee representatives are also being sought to join the Joint Committee.

Northern LGPS Pool
31 March 2020 position at a glance

Fund	Assets Value £bn
GMPF	22,035
WYPF	13,214
MPF	8,602
Total Assets	**43,851**

Pool Set-up Costs

The set-up costs incurred by the pool during 2019-20 and from inception are set out in the table below. The costs are split equally amongst the 3 Funds.

	2019 - 2020			
Set up Costs	**Direct £'000**	**Indirect £'000**	**Total £'000**	**Cumulative £'000**
Recruitment	0	0	0	0
Legal	49	0	49	244
Procurement	35	0	35	125
Other support costs	0	0	0	0
Share purchase/subscription costs	0	0	0	0
Other working capital provided	0	0	0	0
Staff costs	0	0	0	0
Other costs	4	0	4	235
Total	**88**	**0**	**88**	**604**

Northern LGPS Pool - Total costs and savings

The table below sets out the total costs and savings of the Northern LGPS Pool up to 31 March 2020.

	Up to 31 March 2108 £m	**2018-19 £m**	**2019-20 £m**	**Total to 31 March 2020 £m**
Annual running costs	0	0	0.16	0.16
Other service provider fees	0	0.13	0.13	0.26
Transition costs	0	0	0	0
Set up costs	0.22	0.18	0.09	0.49
Total costs	**0.22**	**0.31**	**0.38**	**0.91**
Investment management fee savings	7.63	12.21	22.24	42.08
Service provider savings	0	0	0	0
Total savings	**7.63**	**12.21**	**22.24**	**42.08**
Total savings net of costs	**7.41**	**11.90**	**21.86**	**41.17**

Total costs (including set up, transition and running costs) as at 31 March 2020	**£0.91m**
Total savings, net of costs, as at 31 March 2020	**£41.17m**

Responsible Investment Activity

Responsible Investment (RI) is a central aspect of how NLGPS operates, and environmental, social and governance (ESG) issues are discussed at every meeting.

ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Pool and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour. NLGPS has appointed PIRC as our responsible investment adviser to undertake voting, engagement and other RI activity on our behalf and we published our collective RI policy in early 2019.

The three member funds co-ordinate their voting activity and all votes are disclosed online in a searchable database two days ahead of company meetings. We believe that we are the only asset owner in the UK that currently discloses voting ahead of meetings.

In the table below we show voting and engagement statistics over the year to 31 March 2020.

Voting and engagement statistics

Quarter	Meetings Where NLGPS voted	Meeting-related engagements (PIRC)
Q2 2019	1863	269
Q3 2019	318	122
Q4 2019	339	91
Q1 2020	416	99

Voting decisions

	Director Election		Remuneration Report		Remuneration Policy		Auditor Appointment	
Quarter	For %	Oppose %	For %	Oppose %	For %	Oppose %	For %	Oppose %
Q2 2019	68	24	35	47	14	66	22	60
Q3 2019	77	20	43	31	31	50	33	49
Q4 2019	70	24	29	51	26	51	34	43
Q1 2020	70	20	59	26	27	54	39	42

RI Highlights

We have prioritised a number of themes in our RI activity including the Just Transition, as part of our work in relation to climate change, public sector risk and employment standards and employee voice.

NLGPS was a panel participant at the launch of the Investor Roadmap Just Transition in October which was headlined by Lord Stern. The NLGPS RI policy, which identified the Just Transition as a priority, is featured in the report. NLGPS also participated in a Just Transition related engagement with Drax early in 2020, which included a visit to its power station near Selby.

We have been active in supporting shareholder resolutions in the UK and elsewhere. NLGPS funds co-filed resolutions addressing issues such as climate risk, lobbying activity and employee rights and representation. These have included companies such as Barclays, Delta Airways and Amazon.

As an additional aspect of our engagement activity we have sought to meet with and attend the annual meetings of a number of companies where we have a significant holding. These have included companies where we have identified public sector risk as a factor.

NLGPS funds have participated in a number of collaborative initiatives. We are active members of the Local Authority Pension Fund Forum and are also involved in collective engagement projects such as Climate Action 100+, Workforce Disclosure Initiative and the Human Capital Management Coalition.

We have initiated a thematic project on the housebuilding sector with the support of PIRC. This has involved engagement with a number of the key firms where NLGPS holdings are significant, alongside research into practice across the sector and engagement with stakeholders. An initial report on the project was published in 2019.

GLIL Direct Infrastucture Vehicle

In April 2015, GMPF and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on the UK. The joint venture is structured as a limited liability partnership and has been named GLIL Infrastructure LLP (GLIL). As part of their respective pooling arrangements, West Yorkshire, Merseyside and Lancashire County Council pension funds joined GLIL in December 2016. In March 2018 GLIL was re-structured as an open-ended fund to facilitate potential new members. Additional commitments made by existing members in October 2018 mean GLIL now has committed capital in excess of £1.8 billion.

GLIL began investing in October 2015 and has completed nine transactions with a total value in excess of £1.1 billion.

One of GLIL's earliest transactions was the purchase from SSE of a 21.7 per cent stake in Clyde wind farm for £150 million. GLIL invested an additional £30 million in September 2017 with a further £88 million invested in the summer of 2018. Clyde now has a total generation capacity of 522MW, making it one of the largest onshore windfarms in Europe.

GLIL's most recent transaction, which was completed in January, is the £93 million acquisition of a 49 per cent stake in Cubico's portfolio of 250MW of solar and wind assets across the UK. Combined with Clyde and other assets, GLIL now has exposure to over 800MW of renewable energy.

GLIL's remit includes investment in new build (so-called 'greenfield') infrastructure projects. Alongside GLIL's partnership with Iona to construct £130 million of bioenergy plants around the UK, it has also financed two joint ventures for the build and commissioning of more than a thousand new rail vehicles across two rail franchises in the south of England. The first of these fleets is already entering service on the Greater Anglian network.

At 31 March 2020, Northern LGPS's share of GLIL had net assets valued at £883.4 million. GLIL's internal rate of return (IRR') since inception is 6.0% per annum with a 3.4% per annum cash yield.

GLIL's direct approach has generated costs savings of over £21 million for the Pool over the year and over £30 million since inception compared to a global benchmark cost for infrastructure investment via a typical fund structure.

Northern Private Equity Pool LP

Northern LGPS established the Northern Private Equity Pool in May 2018; an investment joint venture structured as an English Limited Partnership. The partnership operates as a single legal entity through which the three Northern LGPS funds can invest collectively and collaboratively in private equity assets.

The Northern Private Equity Pool draws on the combined expertise and experience of the internal teams at each of the respective Northern LGPS funds, and the administration capabilities of Northern LGPS's pool-wide external custodian. The combined scale and resources of the Northern Private Equity Pool enables the partner funds to invest in private equity through lower cost implementation approaches than have been the case historically.

Investment pace since inception has been consistent with targets, with £850 million committed to 15 investment funds. In addition, a substantial agreement was signed at the end of 2019 that will see the partner funds, through Northern Private Equity Pool, access a lower cost implementation method for the private equity asset class through co-investment alongside preferred managers.

At 31 December 2019, NPEP had net assets valued at £53 million and undrawn commitments of £599 million to private equity funds and $500 million to co-investment. Replacing investment via a fund of funds structure with NPEP's implementation approach has generated savings of approximately £1m over the year, with cumulative savings of approximately £17m forecast by 31 March 2023.

Objectives for 2020/21

The Pool's key objectives for 2020/21 are to:

- Complete the establishment of a pool property framework to deliver efficiencies in the management of property investments and related services
- Further enhance the impact of our responsible investment activities

Councillor Gerald Cooney
Chair of Northern LGPS Pool

Financial Performance

Key Financials for 2019/20

	£'000	£'000	£'000
Fund Value at 31 March 2019			**8,882,738**
Contributions and Benefits			**(104,468)**
Employer Contributions	189,130		
Employee Contributions	58,396		
		247,526	
Pensions Paid	(278,801)		
Lump Sums Paid	(73,306)		
		(352,107)	
Net Transfers		113	
Management Expenses			**(47,569)**
Administration	(3,022)		
Investment Management	(42,442)		
Oversight and Governance	(2,552)		
		(48,016)	
Other Income		447	
Investments			**(97,792)**
Income	210,018		
Change in Market Value	(307,810)		
Fund Value at 31 March 2020			**8,632,909**

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2019) for the 12 months to 31 March 2020.

2019/2020 or at 31 March 2020	**Predicted £'000**	**Actual £'000**
Fund Size 2019	**8,882,738**	**8,882,738**
Fund Size 2020	**9,315,192**	**8,632,909**
Contributions Received	214,999	247,526
Pensions Paid	(347,853)	(352,107)
Net Transfers	-	113
Net Cash Flow From Members	**(132,854)**	**(104,468)**
Net Management Expenses	**(47,601)**	**(47,569)**
Investment Income	231,169	210,018
Change in Valuation of Assets	381,740	(307,810)
Return from Investments	**+612,909**	**(97,792)**
Net Change Overall	**+432,454**	**(249,829)**

The key variance between the forecast and the actual performance, was the return on investments, the change in the valuation of assets; this is largely out of the control of the Fund and as explained throughout the report, were seen in the final quarter of the financial year, due to the COVID-19 pandemic.

The contributions received in 2019/20 are lower than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18), therefore the following 2 years are reduced accordingly. However, the Fund did receive additional and upfront payments in 2019/20, totalling £22.4 million.

The Fund monitors its costs closely. The table below shows the out-turn against the budget approved at Pensions Committee for the year:

12 months to 31 March 2020	**Budget £'000**	**Actual £'000**
Employees	3,799	3,344
Premises	197	197
Transport	54	29
Investment Fees - operating budget	14,044	13,419
Supplies and Services	2,750	1,683
Third Party	1,114	1,183
Recharges	360	331
Total	**22,318**	**20,186**

Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building.
For the purposes of the operating budget, Investment fees above refers to invoiced investment costs only.

Overall the actual out-turn for 2019/20 was £20.2 million, lower than the original budget of £22.3 million approved by the Pensions Committee in July 2019, this is largely due to investment market volatility and budgeted projects and areas of work being deferred to 2020/21.

The 2020/21 Fund budget, as approved by the Pensions Committee in February 2020 is detailed in the table below:

	2020/21 £'000
Employees	3,736
Premises	199
Transport	36
Investment Fees - operating budget	14,908
Supplies and Services	2,560
Third Party	1,250
Recharges	360
Total	**23,049**

The assumptions that underpin this budget are that investment performance follows long-term trends and that the Fund follows the long-term trends in mortality and other factors assumed within the actuarial valuation. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure nor any investment changes associated with pooling. The budget for 2020/21 at £23 million reflects a number of budgeted projects and areas of work originally budgeted in 2019/20 carried forward to the next financial year.

The predictions for key financial variables over the next 3 years are detailed in the table below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Fund Size Start of Year	**8,632,909**	**8,980,328**	**9,182,588**
Fund Size End of Year	**8,980,328**	**9,182,588**	**9,388,804**
Contributions Received	324,862	171,600	175,032
Pensions Paid	(358,093)	(364,180)	(370,371)
Net Transfers	-	-	-
Net Inflow From Members	**(33,231)**	**(192,580)**	**(195,339)**
Net Management Expenses	**(50,995)**	**(54,176)**	**(57,574)**
Investment Income	126,010	210,000	224,490
Change in Valuation of Assets	305,635	239,016	234,639
Return from Investments	**431,645**	**449,016**	**459,129**
Net Change Overall	**347,419**	**202,260**	**206,216**

The contributions predicted for 2020/21 reflect a number of employers paying their normal employer contributions and deficit contributions upfront, covering up to a 3 year period. Consequently, year 2 (2021/22) and year 3 (2022/23) have been reduced accordingly.

It is predicted that investment income will be reduced during 2020/21 as a result of the economic downturn.

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long-term average, then the out-turn will be significantly different. The other key variable is the pattern of membership of the Scheme. If the employers make significant changes which affect the number of active members or deferred members and pensioners, then the cash-flows of the Scheme can change materially. Both of these factors are largely outside the influence of Merseyside Pension Fund.

Financial Statements

Fund Account - for year ended 31 March 2020

	Note	2019/20 £'000	2018/19 £'000
Dealing with Members, Employers and Others Directly Involved in the Fund			
Contributions Receivable	7	247,526	210,577
Transfers In	8	18,152	11,797
		265,678	**222,374**
Benefits Payable	9	(352,107)	(340,698)
Payments to and on Account of Leavers	10	(18,039)	(19,035)
		(370,146)	**(359,733)**
Net Additions/(Withdrawals) from Dealing with Members		**(104,468)**	**(137,359)**
Management Expenses	11	(47,569)	(44,434)
Net Additions/(Withdrawals) including Fund Management Expenses		**(152,037)**	**(181,793)**
Return on Investments:			
Investment Income		214,882	220,626
Profit and Losses on Disposal of Investments and Change in Market Value of Investments		(301,967)	284,842
Taxes on Income		(4,864)	(4,378)
Net Return on Investments		**(91,949)**	**501,090**
Net Increase/(Decrease) in the Fund During the Year		(243,986)	319,297
Net Assets of the Fund at the Start of the Year		8,882,738	8,563,441
Net Assets of the Fund at the End of the Year		**8,638,752**	**8,882,738**

Net Assets Statement - for year ended 31 March 2020

	Note	2019/20 £'000	2018/19 £'000 Restated
Investment Assets	13		
Equities		2,483,568	2,795,439
Bonds		696,229	665,610
Pooled Investment Vehicles		4,432,443	4,621,558
Derivative Contracts		171,194	-
Direct Property		471,925	521,750
Loans		86,076	73,947
Short-term Cash Deposits		105,010	86,098
Other Investment Balances		181,507	104,196
		8,627,952	**8,868,598**
Investment Liabilities	18	**(21,063)**	**(8,445)**
Total Net Investment Assets		**8,606,889**	**8,860,153**
Long-term Assets	19	6,337	4,146
Current Assets	20	41,621	35,413
Current Liabilities	20	(16,095)	(16,974)
Net Assets of the Fund as at 31 March		**8,638,752**	**8,882,738**

Notes to the Accounts

1. Description of Fund

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the Administering Authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2019/20 included 9 councillors from Wirral Council, the Administering Authority, and one councillor from each of the four other Merseyside Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 the Local Pension Board was introduced in accordance with Public Service Pensions legislation and regulations. The Board's aim is to assist the Administering Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

a. General
The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

b. Membership
Membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 207 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 139,960 members as detailed below:

	31/3/20	31/3/19
Number of Employers with Active Members	**207**	**208**
Number of Employees in Scheme	46,745	46,726
Number of Pensioners	46,435	45,038
Number of Dependants	6,595	6,547
Number of Deferred Pensioners	40,185	40,259
Total Scheme Members	**139,960**	**138,570**

c. Funding
Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

d. Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below.

	Service pre-1 April 2008	Service post-31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme, for more details please refer to the Fund's website at: **mpfmembers.org.uk**

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is shown within the ***Consulting Actuary's Statement***, which is published as an addendum to the accounts.

Restatements for 2018/19 are a change in presentation only, the requirements of the code were previously met, but now additional information is being provided.

The accounts have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies

The financial statements have been prepared on an accruals basis, unless otherwise stated.

Contributions and Benefits
Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers' contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary, or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year, but unpaid, will be classed as a current financial asset. Amounts not due until future years, are classed as long-term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken, where the knowledge of the individual member's choice is still outstanding

- Death grants due for payment, but not paid by 31 March, for example, awaiting Probate.

Transfers to and from other Schemes
Transfer values represent the amounts received and paid during the year for members who have either joined, or left the Fund, during the financial year, and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Management Expenses
The Fund discloses its management expenses analysed into three categories; administration costs, investment management costs and oversight and governance costs, in accordance with CIPFA 'Accounting for Local Government Management Costs'.

<u>Administration Costs</u>
All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

<u>Investment Management Costs</u>
All investment expenses are accounted for on an accruals basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management, and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA 'Accounting for Local Government Management Costs' guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure, the Fund does not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment, or from investment income paid to the Fund. If the Fund has been charged directly for Fund Manager costs, they are shown as external private market fees and expenses.

<u>Oversight and Governance Costs</u>
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

Investment Income
Income from Equities is accounted for when the related investment is quoted ex-dividend. Income from Bonds, Pooled Investment Vehicles and interest on Loans and Short-Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is recognised on a straight-line basis over the term of the lease, rent is accounted for in the period it relates to and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Taxation
The Fund is a registered Public Service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004, and as such, is exempt from UK income tax on interest received, and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Valuation of Investments
All financial assets, apart from loans, are included in the Net Asset Statement on a fair value basis as at the reporting date. Loans are included in the Net Asset Statement on an amortised cost basis. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained had the securities been sold at that date

- For unlisted investments, wherever possible, valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date

- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators, or using latest financial statements published by respective Fund Managers, adjusted for any cash flows

- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent

- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds, the net asset value per unit is obtained through data vendors

- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2020 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). This valuation has been prepared in accordance with the RICS Valuation - Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2020 together, where applicable, with the UK National Supplement effective 14 January 2019, together the 'Red Book'. The valuations were arrived at predominantly by reference to market evidence for comparable property

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Derivatives
The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed to, the broker, are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date, and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Short-Term Deposits
Short-term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under 'Other Investment Balances'.

Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Additional Voluntary Contributions
The Fund holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Utmost Life (transferred from Equitable Life 1 January 2020), Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

5. Estimation and Uncertainty

The outbreak of COVID-19, declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity has been impacted in many sectors.

Unquoted Investments
The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund procedures in place for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2020 was £4,289 million (£4,221 million at 31 March 2019).

Private Equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and, as such, there is a degree of estimation involved in the valuation. The IPEV Board issued additional guidance as at 31 March 2020 given the magnitude of the COVID-19 crisis, accompanied by the significant uncertainty.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible management uses the best available data.

For 2019/20 there is additional uncertainty regarding the valuations of illiquid assets, due to the uncertainties in the financial markets and the time it will take to fully realise the impact of COVID-19 on such assets. There is an increased level of risk that the estimated valuations may be mis-stated. The valuations have been updated based upon the available information as at 31 March 2020 and maybe subject to variations as further information becomes available. Note 14 sets out a sensitivity analysis of such assets valued at level 3.

For 2019/20, also due to COVID-19, the property valuation has been reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA10 of the RICS Red Book Global and stated consequently, less certainty, and a higher degree of caution should be attached to their valuation than normally would be the case. The value of direct property as at 31 March 2020 is reported as £471.9 million, using the potential variance of 10% (provided by the Fund's investment consultants for note 14), there is a risk that these investments may be misstated in the accounts by up to £47 million.

6. Events After the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

Non-Adjusting Event - COVID-19
There have been a number of material factors which make it difficult to quantify what the outcome could be on financial markets. How long will the pandemic last? How many waves will there be? How deep will its economic impacts be?

There has been unprecedented government support through stimulus policies including support via the furlough scheme, central banks have reacted by immediately reducing the base rate and have embarked on substantial asset purchase programs.

Both the short and long-term implications of the shut down and the affect it will have on companies remain uncertain and longer-term performance will ultimately be impacted by how long the recovery takes.

As a result of COVID-19, the future investment values may be more volatile, at least over the short to medium term, until a vaccine or other successful cure is found for COVID-19. However, to date, although there has been significant variation to individual fund values (both upwards and downwards) as at the end of September 2020, the investments are valued overall at a higher value than they were at 31 March 2020 (as reported in these financial statements).

With regards to the Fund's level 3 investments, these are well diversified between sectors and also vintage year (year in which first influx of investment capital is delivered to a project or company) meaning that there will be a wide dispersion between the potential valuation effects. Some of the underlying level 3 investment assets could have seen positive uplifts to their valuations (e.g. broadband/telecommunications infrastructure providers) as well as those which will have seen negative (e.g. transport sectors due to short-term demand shocks).

7. Contributions Receivable

	2019/20 £'000	2018/19 £'000
Employers		
Normal	137,903	127,865
Pension Strain	9,726	9,274
Deficit Funding	41,501	18,016
Total Employers	**189,130**	**155,155**
Employees		
Normal	58,396	55,422
	247,526	**210,577**
Relating to:		
Administering Authority	27,826	24,581
Statutory Bodies	175,241	160,776
Admission Bodies	44,459	25,220
	247,526	**210,577**

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2019/20 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

'Pension Strain' represents the cost to employers when their employees retire early, to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

'Deficit Funding' includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2019/20 the Fund has received additional and upfront payments, totalling £22.4 million, (in 2018/19 £2.2 million, in 2017/18 a number of employers opted to pay their three years deficit as a lump sum payment in year 1 totalling £141.2 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2019/20 no such charges were levied.

8. Transfers In

	2019/20 £'000	2018/19 £'000
Group Transfers	-	-
Individual Transfers	18,152	11,797
	18,152	**11,797**

There were no group transfers to the Fund during 2019/20.

9. Benefits Payable

	2019/20 £'000	2018/19 £'000
Pensions	278,801	265,886
Lump Sum Retiring Allowances	66,288	66,173
Lump Sum Death Benefits	7,018	8,639
	352,107	**340,698**
Relating to:		
Administering Authority	48,313	46,919
Statutory Bodies	246,651	240,601
Admission Bodies	57,143	53,178
	352,107	**340,698**

10. Payments to and on Account of Leavers

	2019/20 £'000	2018/19 £'000
Refunds to Members Leaving Service	568	538
Payment for Members Joining State Scheme	-	8
Income for Members From State Scheme	(239)	-
Group Transfers to Other Schemes	-	-
Individual Transfers to Other Schemes	17,710	18,489
	18,039	**19,035**

There were no group transfers out of the Fund during 2019/20.

11. Management Expenses

	2019/20 £'000	2018/19 £'000
Administration Costs	3,022	2,778
Investment Management Costs	42,442	39,708
Oversight and Governance Costs	2,552	2,269
Other Income	(447)	(321)
	47,569	**44,434**

11a. Administration Costs

	2019/20 £'000	2018/19 £'000
Employee Costs	2,075	1,867
IT Costs	667	616
General Costs	248	255
Other Costs	32	40
	3,022	**2,778**

11b. Investment Management Costs

	2019/20 £'000	2018/19 £'000 Restated*
External Investment Management Fees	11,592	10,661
External Investment Management Performance Fees	1,826	544
External Private Market Fees and Expenses	17,214	16,991
External Services	684	799
Internal Investment Management Fees	774	713
Property Related Expenses	6,259	6,334
Transaction Costs	4,093	3,666
	42,442	**39,708**

** Note: 2018/19 has been restated to show separately fees and expenses paid for private market assets, this was previously included within external investment management fees.*

11c. Oversight and Governance Costs

	2019/20 £'000	2018/19 £'000
Employee Costs	585	520
External Services	1,405	1,179
Internal Audit	49	49
External Audit	46	31
Other Costs	467	490
	2,552	**2,269**

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2019/20 is £374,145 relating to recharged Actuarial fees (2018/19 £259,917).

The external Audit fee for 2019/20 is £34,049, additional fees of £2,000 are in relation to work for 2018/19 and an additional £9,800 relates to services in respect of IAS 19 assurances for admitted body auditors, which are recharged to those admitted bodies.

12. Investment Income

	2019/20 £'000	2018/19 £'000 Restated
Dividends from Equities	101,798	99,895
Income from Bonds	4,664	69
Income from Pooled Investment Vehicles	43,827	49,798
Rents from Properties	30,938	30,512
Interest on Short-term Cash Deposits	1,208	712
Income from Private Equity	16,183	33,877
Interest from Loans	14,793	4,814
Other	1,471	949
	214,882	**220,626**
Irrecoverable Withholding Tax	(4,864)	(4,378)
	210,018	**216,248**

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Interest on loans has been accrued up to 31 March 2020, interest on loans for 2018/19 is interest received during the period (previously shown within income from pooled investment vehicles).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £9.0 million (2018/19 £6.3 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, repayments received in 2019/20 £nil (2018/19 £20,981).

12a. Property Income

	2019/20 £'000	2018/19 £'000
Rental Income	30,938	30,512
Direct Operating Expenses	(6,259)	(6,334)
Net Rent from Properties	**24,679**	**24,178**

No contingent rents have been recognised as income during the period.

12b. Property Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short-term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age Profile of Lease Income	2019/20 £'000	2018/19 £'000
No later than one year	4,584	5,195
Between one and five years	5,147	11,208
Later than five years	14,386	11,635
Total	**24,117**	**28,038**

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease has been entered into, such as adjustments following rent reviews.

13. Investments

2019/20	Market Value 31/3/19 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value** £'000	Market Value 31/3/20 £'000
Equities	2,795,439	1,252,204	(1,124,083)	(439,992)	2,483,568
Bonds	665,610	50,749	(31,827)	11,697	696,229
Pooled Investment Vehicles	4,621,558	625,588	(752,749)	(61,954)	4,432,443
Derivative Contracts	-	725,413	(781,934)	227,715	171,194
Direct Property	521,750	21,943	(35,483)	(36,285)	471,925
Loans	73,947	45,252	(33,123)	-	86,076
	8,678,304	**2,721,149**	**(2,759,199)**	**(298,819)**	**8,341,435**
Short-Term Cash Deposits	86,098				105,010
Other Investment Balances	104,196			(3,148)	181,507
	8,868,598			**(301,967)**	**8,627,952**

2018/19 Restated*	Market Value 31/3/18 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value** £'000	Market Value 31/3/19 £'000
Equities	2,768,408	1,635,758	(1,634,730)	26,003	2,795,439
Bonds	-	689,963	-	(24,353)	665,610
Pooled Investment Vehicles	5,030,518	1,028,347	(1,721,615)	284,308	4,621,558
Derivative Contracts	218	613,961	(614,344)	165	-
Direct Property	519,750	3,636	-	(1,636)	521,750
Loans	43,961	48,832	(18,846)	-	73,947
	8,362,855	**4,020,497**	**(3,989,535)**	**284,487**	**8,678,304**
Short-Term Cash Deposits	53,226				86,098
Other Investment Balances	99,613			355	104,196
	8,515,694			**284,842**	**8,868,598**

**Note: 2018/19 has been restated to show loans, these were previously shown under pooled investment vehicles.*
***Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.*

Direct transaction costs are shown under investment management costs in note 11b, in accordance with CIPFA guidance. Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

13a. Analysis of Investments

	2019/20 £'000	2018/19 £'000 Restated
Equities (Segregated Holdings)		
UK Quoted	1,014,305	1,150,144
Overseas Quoted	1,469,263	1,645,295
	2,483,568	**2,795,439**
Bonds		
UK Public Sector Quoted	679,699	665,610
UK Corporate Quoted	400	-
Overseas Corporate Quoted	16,130	-
	696,229	**665,610**
Pooled Investment Vehicles		
UK Managed Funds:		
Equities	75,913	138,487
Private Equity	108,663	286,359
Hedge Funds	172,358	41,772
Corporate Bonds	384,588	354,726
Infrastructure	299,982	353,669
Opportunities	216,442	323,557
Overseas Managed Funds:		
Equities	564,600	494,233
Private Equity	518,898	279,333
Hedge Funds	102,410	221,975
Corporate Bonds	62,884	-
Infrastructure	251,592	192,604
Opportunities	68,655	209,989
UK Unit Trusts:		
Property	72,111	116,426
Overseas Unit Trusts:		
Property	214,805	124,120
Other Unitised Funds	1,318,542	1,484,308
	4,432,443	**4,621,558**
Derivative Contracts	**171,194**	**-**
UK Properties		
Freehold	345,825	387,820
Leasehold	126,100	133,930
	471,925	**521,750**
Balance at 1 April	521,750	519,750
Additions	21,943	3,636
Disposals	(35,483)	-
Net Gain/(Loss) on Fair Value	11,583	-
Other Changes in Fair Value	(47,868)	(1,636)
Balance at 31 March	**471,925**	**521,750**

	2019/20 £'000	2018/19 £'000 Restated
Loans	**86,076**	**73,947**
Short-Term Cash Deposits	**105,010**	**86,098**
Other Investment Balances		
Outstanding Trades	55,729	7,439
Outstanding Dividend Entitlements and Recoverable Withholding Tax	22,589	22,275
Cash Deposits	103,189	74,482
	181,507	**104,196**
Total Investments	**8,627,952**	**8,868,598**

As at 31 March 2020 there were no restrictions on the realisability of investment property or of the remittance of income or proceeds of disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

13b. Analysis of Derivatives

Forward Currency Contracts
The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into Sterling.

Settlement Date	Currency Bought '000	Currency Sold '000	Asset £'000	Liability £'000
Up to one month	GBP 15,027	EUR 16,536	389	
Up to one month	EUR 6,949	GBP 6,211		(60)
Up to one month	SGD 331	GBP 189		(1)
Up to three months	GBP 182,415	EUR 200,000	5,126	
Up to three months	GBP 169,991	USD 200,000	8,924	
			14,439	**(61)**
Net Forward Currency Contracts at 31 March 2020				**14,378**
Prior Year Comparative				
Open Forward Currency Contracts at 31 March 2019			-	(91)
Net Forward Currency Contracts at 31 March 2019				**(91)**

Purchased/Written Options
Options are contracts between two parties that gives the purchaser the right, but not the obligation to either buy (call) or sell (put) at a price at a specific date. The purchaser pays immediately, a non-returnable premium (price) to secure the option. To minimise the risk of loss of value through adverse equity price movements, during 2019/20 the Fund bought a number of equity option contracts that protect it from falls in value in its main investment markets, principally the UK, USA and Europe.

There were no purchased or written options as at 31 March 2019.

Underlying Option Contract	Expires	Put/Call	Notional Holding £'000	Market Value 31/3/20 £'000
Assets				
Overseas equity purchased	One to three months	Put	306	**214,158**
Overseas equity purchased	Over three months	Put	36	**9,452**
Overseas equity purchased	Over three months	Put	72	**6,227**
Total Assets				**229,837**
Liabilities				
Overseas equity written	One to three months	Put	(356)	**(62,832)**
Overseas equity written	One to three months	Call	(307)	**(3,724)**
Overseas equity written	Over three months	Call	(36)	**(12,309)**
Total Liabilities				**(78,865)**
Net Purchased/Written Options				**150,972**

Swaps

Assets	Expires	Notional Holding £'000	Market Value 31/3/20 £'000
Total Return Swaps	Up to one year	6,999	**878**
Total Return Swaps	Up to one year	123,000	**5,252**
Total Assets			**6,130**
Liabilities			
Total Return Swaps	Up to one year	6,000	**(287)**
Total Liabilities			**(287)**
Net Swaps			**5,843**

There were no Swaps as at 31 March 2019.

A swap is an over the counter contractual obligation to exchange cash flows, the amount of which is determined by reference to an underlying asset, index, instrument or notional amount, according to terms which are agreed at the outset of the swap. MPF uses swaps to raise or lower the Fund's exposure in certain regions, to manage risks.

As at 31 March 2020, the Fund held cash and non- cash collateral of £223.6 million to mitigate the risk of loss and credit risk. As the Fund has an obligation to return the collateral, it is excluded from the Fund valuation.

13c. Summary of Managers' Portfolio Values at 31 March 2020

	2019/20 £'m	2019/20 %	2018/19 £'m	2018/19 %
Externally Managed				
JP Morgan (European Equities)	225	2.6	260	2.9
Nomura (Japan)	344	4.0	353	4.0
Schroders (Fixed Income)	385	4.5	355	4.0
Legal & General (Fixed Income)	391	4.5	382	4.3
Unigestion (European Equities and Pooled Emerging Markets)	274	3.2	337	3.8
M&G (Global Emerging Markets)	145	1.7	188	2.1
TT International (UK Equities)	211	2.4	249	2.8
Blackrock (UK Equities)	243	2.8	272	3.1
Blackrock (Pacific Rim)	129	1.5	158	1.8
Blackrock (QIF)	-	-	91	1.0
Newton (UK Equities)	244	2.8	281	3.2
Amundi (Global Emerging Markets)	169	2.0	187	2.1
Maple-Brown Abbot (Pacific Rim Equities)	130	1.5	177	2.0
State Street Global Advisor (Passive Manager)	929	10.8	1,104	12.3
State Street Global Advisor (Bonds Manager)	892	10.3	666	7.5
Blackrock (Transition Manager)	1	-	1	-
	4,712	**54.6**	**5,061**	**56.9**
Internally Managed				
UK Equities	439	5.1	450	5.1
European Equities	228	2.6	247	2.8
Property (Direct)	472	5.5	522	5.9
Property (Indirect)	371	4.3	316	3.6
Private Equity	628	7.3	566	6.4
Hedge Funds	411	4.8	264	3.0
Infrastructure	585	6.8	546	6.2
Opportunities	415	4.8	580	6.5
Global Equities Internal Factor	184	2.1	201	2.3
Short-Term Deposits and Other Investments	183	2.1	116	1.3
	3,916	**45.4**	**3,808**	**43.1**
Total	**8,628**	**100.0**	**8,869**	**100.0**

As at 31 March 2020 no single investment represented more than 5% of the net assets available for benefits.

13d. Stock Lending

As at 31 March 2020, £543.9 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £588.9 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £751,064 and is included within 'Other' Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14. Fair Value - Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period.	Not Required	Not Required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields.	Not Required	Not Required
Derivatives - Futures and Options	Level 1	Published exchange prices at year end.	Not Required	Not Required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges.	Not Required	Not Required
Unquoted Bonds	Level 2	Average of broker prices.	Evaluated Price Feeds	Not Required
Derivatives - Forward Currency Contracts	Level 2	Market forward exchange rates at the year end.	Not Required	Not Required
Pooled Investments - Overseas Unit Trusts and Property Funds	Level 2	Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used.	NAV - based pricing set on a forward pricing basis.	Not Required
Derivatives - OTC Options and OTC Swaps	Level 2	Option and Swaps pricing models.	Not required	Not required
Direct Property	Level 3	Valued at fair value at the year end using independent external Valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the 'RICS Red Book').	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices.
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium.	Material events occurring between the date of the financial statements provided and the Fund's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled Investments - Hedge Funds and Infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis.	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Sensitivity of assets valued at Level 3
The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

31 March 2020	Value £'000	Potential Variance %	Value on Increase £'000	Value on Decrease £'000
Property	635,056	10.0	698,562	571,550
Unquoted UK Equity	82,668	15.0	95,068	70,268
Unquoted Overseas Equity	9,330	15.0	10,730	7,931
Hedge Funds	209,528	10.0	230,481	188,575
Infrastructure	565,189	15.0	649,967	480,411
Private Equity	1,031,773	15.0	1,186, 539	877,007
Total	**2,533,544**			

14a. Fair Value Hierarchy

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in 'Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016)'

Level 1
Assets at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2
Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Assets at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such investments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	4,052,916	1,668,899	2,061,619	7,783,434
Non-Financial Assets at Fair Value through Profit and Loss	-	-	471,925	471,925
Financial Liabilities at Fair Value through Profit and Loss	-	-	-	-
Net Investment Assets	**4,052,916**	**1,668,899**	**2,533,544**	**8,255,359**

Values at 31 March 2019*	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	4,457,295	1,769,887	1,855,425	8,082,607
Non-Financial Assets at Fair Value through Profit and Loss	-	-	521,750	521,750
Financial Liabilities at Fair Value through Profit and Loss	-	(91)	-	(91)
Net Investment Assets	**4,457,295**	**1,769,796**	**2,377,175**	**8,604,266**

** The financial assets at fair value through profit and loss values as at 31 March 2019 have been restated, £74 million related to loans and have been removed from the table.*

A reconciliation of fair value measurements in Level 3 is set out below:

	2019/20 £'000	**2018/19* £'000**
Opening Balance	2,377,175	2,191,484
Acquisitions	458,262	329,127
Disposal Proceeds	(274,441)	(217,316)
Transfer into Level 3	-	-
Total Gains/(Losses) Included in the Fund Account:		
On Assets Sold	83,618	(7,717)
On Assets Held at Year End	(111,070)	81,597
Closing Balance	**2,533,544**	**2,377,175**

** The information for 2018/19 has been restated.*

15. Financial Instruments

15a. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31 March 2020	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000	Total £'000
Financial Assets				
Equities			2,483,568	2,483,568
Bonds			696,229	696,229
Pooled Investment Vehicles			4,432,443	4,432,443
Derivatives			171,194	171,194
Loans	86,076			86,076
Cash Deposits	105,010			105,010
Other Investment Balances	181,507			181,507
Long-Term and Current Assets	47,958			47,958
Total Financial Assets	**420,551**	**-**	**7,783,434**	**8,203,985**
Financial Liabilities				
Derivatives				
Other Investment Balances		(21,063)		(21,063)
Current Liabilities		(16,095)		(16,095)
Total Financial Liabilities	**-**	**(37,158)**	**-**	**(37,158)**
Total Net Assets	**420,551**	**(37,158)**	**7,783,434**	**8,166,827**

31 March 2019 Restated	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000	Total £'000
Financial Assets				
Equities			2,795,439	2,795,439
Bonds			665,610	665,610
Pooled Investment Vehicles			4,621,558	4,621,558
Derivatives				-
Loans	73,947			73,947
Cash Deposits	86,098			86,098
Other Investment Balances	104,196			104,196
Long-Term and Current Assets	39,559			39,559
Total Financial Assets	**303,800**	**-**	**8,082,607**	**8,386,407**
Financial Liabilities				
Derivatives			(91)	(91)
Other Investment Balances		(8,354)		(8,354)
Current Liabilities		(16,974)		(16,974)
Total Financial Liabilities	**-**	**(25,328)**	**(91)**	**(25,419)**
Total Net Assets	**303,800**	**(25,328)**	**8,082,516**	**8,360,988**

To allow reconciliation to the Net Asset Statement and for ease to the reader, all long-term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.

15b. Net Gains and Losses on Financial Instruments

	2019/20 £'000	2018/19 £'000
Financial Assets		
Fair Value Through Profit and Loss	(262,534)	286,123
Total Financial Assets	**(262,534)**	**286,123**
Financial Liabilities	-	-
Total Financial Liabilities	**-**	**-**
Net	**(262,534)**	**286,123**

15c. Fair Value of Financial Instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value, and for those which aren't, their amortised cost is considered to be equivalent to an approximation of fair value.

16. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long-term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved, will at least match the assumptions underlying the actuarial valuation, and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation, but will be reviewed as required, particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer-term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk, and the risk/return characteristics of each asset, and their relative correlations are reflected in the make-up of the strategic benchmark.

The Fund believes that, over the long-term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long-term investment perspective. A mix of short-term assets such as bonds and cash is maintained to cover short-term liabilities, while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner.

The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers
- Explicit mandates governing the activity of Investment Managers
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation
- The use of equity downside protection strategies
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

16a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The following tables show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward-looking assumption of future volatility based on analysis of previous performance and probability.

31 March 2020	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including Pooled Vehicles)	1,240	19.0	1,475	1,004
US Equities	427	21.0	516	337
Canadian Equities	9	24.0	11	7
European Equities	759	22.5	929	588
Japanese Equities	368	20.5	443	292
Emerging Markets Equities including Pacific Rim	691	28.0	884	497
Global Equities (all Equities including Pooled Vehicles)	557	19.5	666	448
UK Fixed Income Pooled Vehicles	837	11.0	929	745
UK Index-Linked Gilts	680	9.0	741	619
Corporate Bonds	17	9.0	18	15
Pooled Property	287	12.5	323	251
Private Equity	628	28.5	806	449
Hedge Funds	275	9.0	299	250
Infrastructure	552	18.5	654	450
Other Alternative Assets	285	9.5	312	258
Loans, Short-Term Deposits and Other Investment Balances	555	0	555	555
Total	**8,167**			

31 March 2019	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including Pooled Vehicles)	1,496	19.0	1,780	1,211
US Equities	569	21.0	689	450
Canadian Equities	9	24.0	11	7
European Equities	841	22.5	1,030	652
Japanese Equities	379	20.5	456	301
Emerging Markets Equities including Pacific Rim	876	28.0	1,121	630
Global Equities (all Equities including Pooled Vehicles)	428	19.5	512	345
UK Fixed Income Pooled Vehicles	735	11.0	816	655
UK Bonds	666	9.0	726	606
Pooled Property*	260	12.5	293	228
Private Equity	566	27.5	721	410
Hedge Funds	264	9.5	289	239
Infrastructure	546	18.5	647	445
Other Alternative Assets*	448	14.1	511	385
Loans, Short-Term Deposits and Other Investment Balances	278	-	278	278
Total	**8,361**			

** 2018/19 values have been restated to reclassify loans*

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent that the fair value on future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Currency Risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency on any cash balances and investment assets not denominated in UK sterling.

16b. Credit Risk

Credit risk represents that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short-term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding, under its treasury management arrangements as at 31 March 2020, was £105.0 million (31 March 2019 £86.1 million). This was held on instant access accounts with the following institutions:

16c. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's key priority is to pay pensions in the long-term and in the short-term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer-term risks associated with market volatility.

The Fund always ensures it has adequate cash resources to meet its commitments. The Fund has a cash balance at 31 March of £105 million. The Fund has £5,841 million in assets which could be realised in under 7 days' notice, £780 million in assets which could be realised in under 90 days' notice and £1,546 million in assets which could not be realised within a 90-day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund has a net withdrawal for 2019/20 in its dealing with members of £104 million and management expenses of £48 million, this is offset by investment income of £215 million.

Refinancing Risk

Refinancing risk represents the risk that the Fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

	Rating S&P	Balances as at 31 March 2020 £'000	Balances as at 31 March 2019 £'000
Lloyds Bank	Long A Short A-1	41,078	22,717
Northern Trust	AAAm	63,932	28,381
Invesco	AAAm	-	15,000
Svenska Handelsbanken	Long AA- Short A-1+	-	20,000
Total		**105,010**	**86,098**

16d. Outlook for Real Investment Returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 17% per 1% change in real investment returns. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

17. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The most recent Triennial Valuation by the actuary was as at 31 March 2019, when the funding level was 101% of projected actuarial liabilities (2016 85%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies that for the majority of the statutory employers, the recovery period is 16 years, taking account of all the employer specific factors, the implied average period across the Fund is 13 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Summary of Key whole Fund assumptions used for calculating funding target

	31 March 2019 % p.a.
Long-Term Yields	
Market Implied RPI Inflation	3.40
Solvency Funding Target Financial Assumptions	
Investment Return (Higher Risk Bucket)	4.15
CPI Price Inflation	2.40
Short-term Salary Increases	Varies by employer
Long-term Salary Increases	3.90
Pension Increases/Indexation of CARE Benefits	2.40
Future Service Accrual Financial Assumptions	
Investment Return/Discount Rate (Higher Risk Bucket)	4.65
CPI Price Inflation	2.40
Short-term Salary Increases	Varies by employer
Long-term Salary Increases	3.90
Pension Increases/Indexation of CARE Benefits	2.40

18. Investment Liabilities

	2019/20 £'000	2018/19 £'000
Derivative Contracts	-	91
Amounts Due to Stockbrokers	21,063	8,354
	21,063	**8,445**

19. Long-Term Assets

	2019/20 £'000	2018/19 £'000
Assets due in more than one year	6,337	4,146
	6,337	**4,146**

Assets due in more than one year include future payments of pension strain and accrued loan interest.

20. Current Assets and Liabilities

	2019/20 £'000	2018/19 £'000
Assets		
Contributions Due	17,666	17,270
Amounts Due from External Managers	-	417
Accrued and Outstanding Investment Income	7,431	344
Sundries	15,402	14,192
Provision for Credit Losses	(90)	(157)
Cash at Bank	1,212	3,347
	41,621	**35,413**
Liabilities		
Amounts Due to External Managers	-	165
Retirement Grants Due	3,222	2,177
Provisions	511	494
Miscellaneous	12,362	14,138
	16,095	**16,974**
Net Current Assets and Liabilities	**25,526**	**18,439**

'Sundries' mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

'Provision for Credit Losses' relates to general debtors and property rental income and is based on an assessment of all individual debts as at 31 March 2020.

The main components of 'Miscellaneous Liabilities' are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imbursement.

21. Contractual Commitments

Commitments for investments amounted to £1,154 million as at 31 March 2020. (2018/19 £1,064 million). These commitments relate to Private Equity £580.80 million, Infrastructure £229.52 million, Opportunistic Credit £87.21 million, Indirect Property £229.76 million and Other Alternatives (£26.93 million). As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. Contingent Assets

When determining the appropriate Fund policy for employers, the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging 'contingent assets' in the form of bonds/ indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administering Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

23. Related Party Transactions

There are three groups of related parties: transactions between Wirral Council (as Administering Authority) and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £4.0 million. (2018/19 £3.7 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £8.9 million (2018/19 £10.3 million) and a creditor of £337,020 as at 31 March 2020 (2018/19 £341,033).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2020 payroll are included within the debtor's figure in note 20.

A specific declaration has been received from Pension Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular Scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Whiston Town Council, Rainhill Parish Council, One Vision Housing, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such, no related party transactions have been declared.

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Eclipse (£11.5 million), Aberdeen Standard Secondary Opportunities Funds (£14.8 million), BMO Asset Management (£22.4 million), GLIL (£119.1 million) and NPEP (£21.0million).

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on eleven investment bodies in which the Fund has an interest, Aberdeen Standard Secondary Opportunities Funds (£14.8 million), BBH Capital (£14.5 million), TEO Plc (£16.1 million), GCM Grosvenor Co-Investment Fund (£8.2 million), BMO Asset Management (£22.4 million), Capital Dynamics (£239.9 million), Key Capital Partners (£1.7million), Palatine (£17.2 million), Shard Credit (£8.5 million), Silver Street Capital (£7.5 million) and HarbourVest Co-investment Fund V part of NPEP.

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on fourteen investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£4.0 million), Bridges Property Alternatives IV (£1.2 million), Century Bridge China Real Estate Fund II (£8.0 million), Phoenix Asia Secured Debt Fund (£5.3 million), Alma Property Partners (£10.4 million), Barwood Property (£11.7 million), Chenavari Real Estate Fund III (£9.4 million), Newcore Strategic Situations IV (£11.7 million), Hearthstone Residential Fund I (£15.0 million), European Student Housing Fund II (£12.8 million), Locust Point Private Credit Fund (£7.5 million), Barwood Regional Growth IV (£2.0 million), Alma Property Partners II (£3.2 million) and Deautsche Finance International Fund I (£6.9 million).

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on nine investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£11.5 million), Blackrock GRP Fund I (£15.0 million) and AMP GIF II (£11.2 million), Virtus (£29.2 million), Impax New Energy Investors III LP (£3.2 million), AMP GIF I (£39.4 million), P3P Hoddesdon LP (£6.3 million), P3P NI LP (£16.7 million) and MEIF6 (£3.3 million).

Each member of the Pension Fund Committee and Pension Board Members formally considers conflicts of interest at each meeting.

Key Management Personnel

The Fund's senior management during 2019/20 was comprised of six individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3) and Head of Finance & Risk, the remuneration paid to the senior management during 2019/20 was £418,149 (2018/19 £402,649). In addition, employer contributions of £64,481 (2018/19 £58,063) was also met from the Fund and charged to the Fund Account.

24. Additional Voluntary Contribution Investments

	2019/20 £'000	2018/19 £'000
The Aggregate Amount of AVC Investments is as follows:		
Utmost Life*	2,003	1,985
Standard Life	5,061	5,286
Prudential	9,312	8,739
	16,376	**16,010**
Changes During the Year were as follows:		
Contributions	5,134	3,394
Repayments	4,531	3,685
Change in Market Values	(237)	386

** The Equitable Life Scheme transferred to Utmost Life on 1 January 2020.*

Statement of Responsibilities

The Authority's Responsibilities

The Council as Administering Authority of Merseyside Pension Fund is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer;
- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2020.

In preparing this statement of accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

Section 151 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Section 151 Officer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2020, and its income and expenditure for the year then ended.

Shaer Halewood
Section 151 Officer
November 2020

Audit Report

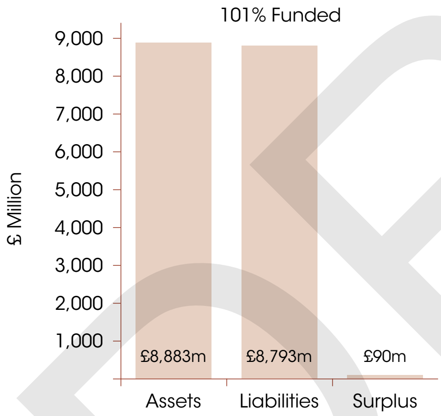
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2020
Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,883 million represented 101% of the Fund's past service liabilities of £8,793 million (the 'Solvency Funding Target') at the valuation date. The surplus at the valuation was therefore £90 million.



The valuation also showed that a Primary contribution rate of 17.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 13 years, and the total initial recovery payment (the 'Secondary rate' for 2020-2023) is an addition of approximately £0.2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For Past Service Liabilities (Solvency Funding Target) per annum	For Future Service Liabilities (Primary rate of contribution) per annum
Rate of return on investments (discount rate)	4.15%	4.65%
Rate of pay increases (long-term)*	3.9%	3.9%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4%	2.4%

** allowance was also made for short-term public sector pay restraint over a 4 year period.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The 'McCloud judgment' refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £65 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum. To the extent that employers have opted to pay additional contribution over 2020/23 in relation to the McCloud judgment, these emerge in the Secondary Contribution Rates figures quoted above.

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019 per annum	**31March 2020 per annum**
Rate of return on investments (discount rate)	2.4%	2.4%
Rate of CPI Inflation / CARE Benefit revaluation	2.2%	2.1%
Rate of pay increases*	3.7%	3.6%
Rate of increases in pensions in payment (in excess of GMP) / Deferred Revaluation	2.3%	2.2%

** This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.*

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £12,265 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£294 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£64 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation - see comments elsewhere in this statement). There was also a decrease in liabilities of £860 million due to 'actuarial gains' (i.e the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £11,763 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £41 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2020

Clive Lewis
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2020

Appendix A

Scheme employers with active members as at 31 March 2020

Scheduled Bodies (34)	**Contributions Received**		
	Employers £'000	**Deficit/(Surplus) £'000**	**Employees £'000**
Billinge Chapel End Parish Council	4	0	1
Carmel College	262	190	110
Chief Constable (CC)	7,979	4,044	3,924
Cronton Parish Council	3	0	1
Eccleston Parish Council	4	0	1
Edsential SLE	224	44	70
Halewood Town Council	29	11	9
Hugh Baird College	636	365	276
Knowsley M.B.C.	11,291	0	5,013
Knowsley Town Council	29	(6)	9
LCRCA - Liverpool City Region Combined Authority	780	0	402
Liverpool City Council	31,558	0	13,485
Liverpool John Moores University	5,814	5,110	2,917
Liverpool Streetscene Services Ltd	1,064	0	309
Maghull Town Council	49	0	15
Merseyside Fire & Rescue Authority	1,416	0	621
Merseyside Passenger Transport Executive (MPTE)	3,374	0	1,569
Merseyside Waste Disposal Authority	144	147	73
Office of the Police and Crime Commissioner (OPCCM)	87	37	52
Prescot Town Council	11	3	8
Rainford Parish Council	11	3	3
Rainhill Parish Council	3	0	1
School Improvement Liverpool Ltd	812	0	388
Sefton M.B.C.	16,577	0	6,591
Shared Education Services Ltd	361	37	122
Southport College	397	240	151
St. Helens College	831	714	333
St. Helens M.B.C.	12,083	0	5,064
The ACC Liverpool Group Ltd	615	0	437
The City of Liverpool College	540	748	233
Whiston Town Council	30	10	11
Wirral Council	18,015	0	7,505
Wirral Evolutions Ltd	487	0	148
Wirral Metropolitan College	658	389	251

Scheduled Bodies (Academies) (102)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Academy of St Francis of Assisi	130	11	57
Bellerive FCJ Catholic College	93	44	34
Birkdale High School	75	58	28
Birkenhead 6th Form College (Academy)	229	98	101
Birkenhead High School Academy	159	18	59
Bishop Martin CE Primary	31	20	10
Blacklow Brow School (Academy)	37	20	14
Blue Coat School (Academy)	119	72	51
Calday Grange Grammar School	191	40	69
Chesterfield High School	127	81	44
Childwall Sports & Science Academy	77	102	35
Christ Curch Moreton Primary (Academy)	51	25	19
Church Drive Primary	88	37	29
Churchtown Primary (Academy)	155	96	50
Co-op Academy Bebington	134	84	55
Co-op Academy Portland	27	18	10
Co-op Academy Woodslee	40	18	15
Cronton CE Primary (Academy)	45	20	14
Croxteth Community Primary School (Academy)	60	22	22
De La Salle Academy	59	40	25
Deyes High School	170	99	69
Egremont Primary School (Academy)	69	31	24
Everton Free School	22	0	20
Finch Woods Academy	62	17	16
Formby High School	116	78	43
Garston CE Primary School (Academy)	46	14	15
Great Meols Primary School (Academy)	60	25	20
Greenbank High School	139	65	53
Halewood Academy Centre for Learning	135	159	55
Halewood CE Primary (Academy)	46	24	16
Halsnead Primary School (Academy)	58	30	21
Harmonize Academy	38	0	15
Hawthornes Free School	72	19	24
Heygreen Community Primary (Academy)	44	21	22
Hilbre High School (Academy)	180	107	70
Hillside High School (Academy)	106	144	40
Holy Trinity CE Primary (Academy)	43	27	14
Hope Academy	148	99	60
Huyton with Roby CE Primary (Academy)	69	27	21

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Kew Woods	71	34	24
Kings Leadership Academy (Liverpool)	83	23	35
Kirkby High School	131	142	58
Knowsley Lane Primary School (Academy)	32	29	14
LDST - Liverpool Diocesan Schools Trust (Academy)	29	0	22
Litherland High School (Academy)	99	97	45
Litherland Moss Primary (Academy)	42	20	15
Liverpool College (Academy)	119	0	39
Liverpool Life Science UTC	64	1	29
Lord Derby Academy	160	93	57
Maghull High School	86	90	34
New Park Primary (Academy)	142	74	62
North Liverpool Academy	211	45	125
Nutgrove Methodist Aided Primary	30	14	12
Oldershaw Academy	152	70	61
Our Lady of Pity (Academy)	79	31	23
Parish CE Primary (Academy)	39	18	16
Park View Academy	54	42	19
Poulton Lancelyn Primary School (Academy)	55	24	18
Prenton High School for Girls	121	0	49
Rainford High School (Academy)	140	58	62
Rainhill High School	144	81	66
Rainhill St Anns CE Primary School (Academy)	70	29	23
Range High School	158	100	59
Roscoe Primary (Academy)	61	28	21
Shoreside Primary School	38	18	12
St Andrews CE Primary (Academy)	46	24	14
St Anselm's College	93	22	34
St Edward's College	106	68	44
St Francis Xavier's College (Academy)	147	82	55
St Gabriel's CE Primary	19	9	8
St James' Primary School (Academy)	33	9	12
St John Plessington Catholic College	193	79	66
St Joseph's Primary (Academy)	57	26	21
St Margaret's Church of England Academy	119	61	44
St Mary & St Thomas CE Primary School (Academy)	73	30	26
St Mary's Catholic College	194	123	64
St Michael's CE High School (Academy)	112	90	50
St Silas CE Primary School (Academy)	87	30	30

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
St Thomas CE Primary (Academy)	23	19	6
Stanley High School (Academy)	90	64	31
Stanton Road Primary School (Academy)	58	20	18
Studio @ Deyes Academy	17	0	5
Sylvester Primary Academy	38	11	11
The Academy of St Nicholas	126	160	51
The Beacon CE Primary School (Academy)	50	20	21
The Belvedere Academy	112	21	49
The Birkenhead Park School	80	125	36
The Prescot School (Academy)	111	77	39
The Studio (Academy)	15	0	8
The Sutton Academy	135	110	66
Town Lane Infant School (Academy)	60	25	19
Townfield Primary	106	36	47
Upton Hall School	113	41	39
Weatherhead High School	180	93	80
West Derby School (Academy)	155	43	55
West Kirby Grammar School	80	50	33
Whiston Willis Primary (Academy)	53	24	15
Willow Tree Primary	27	15	11
Wirral Grammar Boys (Academy)	77	49	31
Wirral Grammar School for Girls	91	42	29
Woodchurch High School	334	147	125
Yew Tree Primary Academy	52	38	19

Admission Bodies (Community) (26)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Age Concern - Liverpool	17	(17)	7
Arriva North West	695	3,092	176
Association of Police and Crime Commissioners	137	16	81
Berrybridge Housing Ltd	30	50	14
Birkenhead School (2002)	35	(10)	8
Care Quality Commission	22	90	8
Catholic Children's Society	35	26	5
CDS Housing	572	147	184
Citizens Advice Liverpool	18	0	3
Cobalt Housing Ltd	87	0	29
Commutual	37	0	13
Glenvale Transport Ltd/Stagecoach	102	(22)	29
Greater Hornby Homes	11	11	4
Greater Merseyside Connexions (Career Connect)	716	(640)	199
Lee Valley Housing Association Ltd	30	36	10
Liverpool Hope University	51	100	8
Local Government Association	1,013	1,198	718
Merseyside Lieutenancy	13	0	4
North Huyton Communities Future	16	0	9
Partners Credit Union	94	0	25
Port Sunlight Village Trust	23	0	8
South Liverpool Housing Ltd	91	192	29
Torus 62 Ltd	2,168	120	806
Welsh Local Government Association	330	0	182
Wirral Autistic Society (Autism Together)	612	(308)	127
Wirral Partnership Homes Ltd (Magenta Living)	1,763	(268)	768

Admission Bodies (Transfer) (45)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Absolutely Catering (Longmoor)	5	0	1
Absolutely Catering (St Oswald's)	3	0	1
Addaction (Sefton)	12	0	4
Agilisys Limited	11	3	4
Agilisys Ltd (Sefton)	287	0	93
Balfour Beatty PFI SEN School	14	0	3
Balfour Beatty Workplace Ltd	71	(7)	21
Bouygues E&S FM Uk Ltd	19	0	5
Castlerock Recruitment Group Ltd (CRG)	8	0	3
Caterlink Ltd	18	7	4
Change Grow Live	13	0	3
City Health Care (St Helens)	98	18	35
Compass (Scolarest) Liverpool Schools	3	1	1
Compass (Scolarest) Wirral Schools	31	(2)	8
Compass Contract Services (UK) Ltd	15	12	3
CWP (NHS)	622	0	209
Dolce Ltd	2	0	1
Friends of Birkenhead Council Kennels	8	0	3
Fun 4 Kidz	4	0	1
Graysons Education Limited	13	0	3
Hochtief Liverpool Schools	19	1	4
Hochtief Wirral Schools	38	(5)	9
Interserve (Facilities Management) Ltd	9	5	2
Kingswood Colomendy Ltd	8	13	2
Knowsley Youth Mutual Ltd	80	0	31
L&T FM (Chroda)	15	0	4
Mellors Catering - Birkdale	14	(1)	4
Mellors Catering - St Anns	6	3	2
Mellors Catering - St Mary & St Thomas	2	1	1
Mellors Catering - St Paul & St Timothy	4	0	1
Orian Solutions	18	0	4
Sanctuary Home Care Ltd	27	0	8
Sefton New Directions Ltd	540	(277)	167
Siemens Mobility Ltd	18	9	5
SSE Contracting Ltd	61	0	19
Tarmac Trading Ltd	33	0	11
Taylor Shaw - Great Meols	5	0	1
Taylor Shaw - Hugh Baird	5	0	1
Taylor Shaw - Raeburn	6	0	1
Taylor Shaw - Range	10	0	1

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Taylor Shaw - St Andrews	2	0	1
Veolia ES Merseyside & Halton	98	(98)	29
Volair Ltd	326	0	113
WCFT (NHS)	927	0	325
WIRED Ltd	20	0	7
Sceme Employers where contributions have been received during 2019/20 but they had no Active Scheme Members as at 31 March 2020			
Emslie Morgan	14	9	7
Geraud Markets	1	2	
Mersey Waste		264	
One Vision Housing	6	20,691	1
Shap Ltd	3		1
Totals	**137,903**	**41,501**	**58,396**

DRAFT

Appendix B

Pensions Committee Items

16 July 2019

Audit Findings Report

Statement of Accounts / Letter of Representation

Draft Annual Report and Accounts

Budget Outturn 18/19, Final Budget

Wirral Council Motion

LGPS Update

Scheme Pays Policy

Systematic Investment

Authorised Signatories

Treasury Management Annual Report

Pool Operating Agreement

Training & Development Opportunities

Working Party Minutes

Pension Board Minutes 13/06/18

Pooling Update

4 November 2019

LGPS Update

Catalyst Fund Update

Governance Statement

The Pension Regulator Engagement Report

Pension Board Terms of Reference

Training & Development Opportunties

Pension Board Minutes 17/07/2019

Compliance Manual

Pooling Update

Working Party Minutes

3 February 2020

Pension Board Review

LGPS Update

Actuarial Valuation

Funding Strategy Statement

Revised Investment Strategy

Treasury Management Strategy

Pension Fund Budget

Member Development Programme

Good Governance Project

Pension Board Minutes

Working Party Minutes

Property Arrears

30 March 2020

Meeting Cancelled

Attendance Record 2019 - 2020

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 JUL	4 NOV	3 FEB	30 MAR	14 NOV	25 FEB	6 JUN	18 SEP	14 NOV	25 FEB
Cllr Pat Cleary (Chair)	•	•	•	*	•	•	•	•	•	•
Cllr Geoffrey Watt (Spokesperson)	•	•	•	*	•	•	•	•	•	•
Cllr George Davies (Spokesperson)	•	•	•	*		•	•	•	•	•
Cllr Chris Carubia			•	*		•	•			•
Cllr Andrew Gardner	•	•		*			•		•	
Cllr Tony Jones	•	#	•	*	•	•	•		•	•
Cllr Brian Kenny	•	•	•	*				•		
Cllr Cherry Povall, JP	#	•	•	*		•	•	•		•
Cllr Stuart Wittingham			•	*			•	•		
Cllr Ian Byrne (Liverpool City Council Co-Optee)				*			•	•		
Cllr John Fulham (St. Helens MBC Co-Optee)	•			*		•				•
Cllr Jayne Aston (Knowsley MBC Co-Optee)	•			*						
Cllr Paulette Lappin (Sefton MBC Co-Optee)	•	•	•	*			•			
Roger Bannister (UNISON Co-Optee)	•	•	•	*		•	•	•	•	•

Deputy Attended
* Meeting Cancelled

Conferences

	LGC Celtic Manor	PLSA	MPF Annual Conference	LAPFF Annual Conference	LGPS Governance Conference	LGC Investment Seminar	PLSA Gloucestershire	Fundamentals Training
	5 - 6 SEP	16 - 18 OCT	29 NOV	4 - 6 DEC	23 - 24 JAN	27 - 28 FEB	18 - 20 MAY	17 OCT - 6 NOV
Cllr Pat Cleary (Chair)	•							•
Cllr Geoffrey Watt (Spokesperson)	•					•		
Cllr Chris Carubia	•	•			•	•		
Cllr Andrew Gardner						•		
Cllr Brian Kenny		•				•	•	
Cllr Cherry Povall, JP	•	•				•		
Roger Bannister (UNISON Co-Optee)		•		•			•	

Appendix C

Information Contacts

Position	Name	Telephone number
Director of Pensions	Peter Wallach	0151 242 1390
Head of Pensions Administration	Yvonne Murphy	0151 242 1390

Area	Name	Telephone number
Accounts (Compliance, Financial Control and Management)	Donna Smith	0151 242 1390
Investments (Fund Assets' Management)	Linda Desforges	0151 242 1390
Employer Compliance and Membership (Transfers, Divorce, Admissions, Data quality assurance)	Sue Roberts/Paula Heaton	0151 242 1390
Benefits/Payroll (Retirement Calculations and Payments)	Barbara King/Keith Higgins	0151 242 1390
Operations (IT/Communications) (Systems Support, MyPension, Website, Events)	Guy Hayton	0151 242 1390

Resolution of Disputes		
Employer Decisions	Head of Pensions Administration	0151 242 1390
Fund Decisions	Section 151 Officer	0151 666 3407

Scheme Employers' Contacts		
Arriva North West	Alison Ashcroft	07855 104975
Knowsley MBC	Jaci Dick	0151 443 5161
Liverpool City Council	Richard Arnold	0151 233 0375
Liverpool John Moores University	Jayne Brown	0151 231 8756
Merseyside Fire & Rescue Service	Mike Rea	0151 296 4245
Merseytravel (MPTE)	Sue Highton	0151 330 1199
Merseyside Waste Disposal Authority	Jane Nolan	0151 255 2537
Office of the Police and Crime Commissioner for Merseyside (OPCCM)	Karen Blake	0151 777 8189
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Sarah Myers	0174 467 6627
Wirral Council	Matthew Slater	0151 691 8529

Merseyside
PENSION FUND

Report & Accounts 2019/20

Merseyside Pension Fund
Castle Chambers
43 Castle Street
Liverpool
L2 9SH

Tel: 0151 242 1390
Email: mpfadmin@wirral.gov.uk
www.merseysidepensionfund.org.uk

Administering Authority Wirral Council

WIRRAL

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PENSIONS COMMITTEE

2 November 2020

REPORT TITLE:	**STATEMENT OF ACCOUNTS 2019/20 – MERSEYSIDE PENSION FUND AND LETTER OF REPRESENTATION**
REPORT OF:	**DIRECTOR OF FINANCE & INVESTMENT (S151)**

REPORT SUMMARY

The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2019/20 and to respond to the Audit Findings Report from Grant Thornton.

Due to COVID-19, the Fund's Statement of Accounts for 2019/20 include an additional level of uncertainty. The global pandemic has impacted upon financial markets and there is a further risk of uncertainty for the valuations of unquoted investments where there is a degree of estimation involved in the valuations.

Subject to outstanding work, Grant Thornton has indicated there will be an unqualified opinion, with the inclusion of an Emphasis of Matter paragraph highlighting asset valuation material uncertainties. This does not affect their opinion that the statements present fairly the financial position of Merseyside Pension Fund as at 31 March 2020 at £8.6bn. At the time of writing this report, the Fund has agreed to all material adjustments; a verbal update at the meeting will be provided.

The Audit Opinion will be issued following final completion of the audit, consideration of the Audit Findings Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee. Subject to this, the accounts will form the basis of the Annual Report for the year ended 31 March 2020.

A Letter of Representation on behalf of the Committee has been prepared, which gives assurances to the Auditor on various aspects relating to the Pension Fund.

RECOMMENDATION/S

That Pensions Committee approves the audited Statement of Accounts for 2019/20, considers the amendments to the accounts, the Audit Findings Report and the Letter of Representation.

That Pensions Committee refers the recommendations to the Audit and Risk Management Committee.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 As required by International Standard on Auditing and the Code of Audit Practice, the Auditor reports its findings on the audit of the Pension Fund Financial Statements to those charged with governance.

1.2 As the Pension Fund receives a separate Audit Findings Report, this report will first be considered by Pensions Committee, and then by Audit and Risk Management Committee.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

3.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2020 in accordance with prescribed guidance.

3.2 The Statement of Accounts, including notes were prepared and available for audit by 31 July 2020, one month ahead of the statutory deadline for 2019/20 reporting.

3.3 For 2019/20 there is additional uncertainty regarding the valuations of illiquid assets, due to the uncertainties in the financial markets and the time it will take to fully realise the impact of COVID-19 on such assets. There is an increased level of risk that the estimated valuations may be misstated. The valuations have been updated based upon the available information as at 31 March 2020

3.4 For 2019/20, also due to COVID-19, the property valuation has been reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global and, stated consequently with less certainty. A higher degree of caution should be attached to their valuation than normally would be the case. The value of direct property as at 31 March 2020 is reported as £471.9 million.

3.5 As a result of COVID-19, the future investment values may be more volatile, at least over the short to medium term, until a vaccine or other successful cure is found for COVID-19. However, to date, although there has been significant variation to individual fund values (both upwards and downwards), as at the end of September 2020 the investments are valued overall at a higher value than they were at 31 March 2020 (as reported in the financial statements).

3.6 With regards to the Fund’s illiquid investments, these are well diversified between sectors and also vintage year (year in which first influx of investment capital is delivered to a project or company) meaning that there will be a wide dispersion between the potential valuation effects. Some of the underlying investment assets could have seen positive uplifts to their valuations (e.g.

broadband/telecommunications infrastructure providers), as well as those which will have seen negative (e.g. transport sectors due to short-term demand shocks).

3.7 Grant Thornton is close to completion of its audit of the accounts and the Audit Findings Report is on this agenda. They may provide a verbal update at the meeting on the report and officers will respond if necessary.

3.8 A Letter of Representation on behalf of the Committee which gives assurances to the Auditor on various aspects relating to the Pension Fund.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 There is a legal requirement to prepare and approve the statement of accounts under Regulation 57 of The Local Government Pension Scheme Regulations 2013 and The Accounts and Audit Regulations 2015.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 There are none arising directly from this report.

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 No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

REPORT AUTHOR: **Donna Smith**
(Head of Finance & Risk)
telephone: (0151) 2421312
email: donnasmith@wirral.gov.uk

APPENDICES

1. The statement of accounts forms part of the Annual Report & Accounts which is a separate item on the agenda at this Committee meeting.

2. Letter of Representation

BACKGROUND PAPERS

The Statement of Accounts plus relevant working papers and the Audit Findings Report from Grant Thornton were used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
The Fund's Statement of Accounts are brought annually to this Committee.	**16 July 2019** **16 July 2018** **17 July 2017**

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WIRRAL

Business Management

Shaer Halewood
Director of Finance and Investment
PO Box 290,
Brighton Street,
Wallasey,
Wirral,
CH27 9FQ.

to Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
BIRMINGHAM
B4 6AT

date 23 November 2020

my ref

Dear Sirs

Merseyside Pension Fund
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the matters included in your Audit Findings Report in respect of:

- the differences in asset valuations as the result of more recent updated information being available.

We have not adjusted the financial statements for these matters brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end and in respect of investment valuations there are no indications of weakness in management's arrangements for estimating investment values at year end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xiv. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity has been impacted in many sectors.

As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

The Pensions Fund's valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the **Pensions Committee** at its meeting on **2 November 2020** and by the **Audit and Risk Management Committee** at its meeting on the **23 November 2020**.

Yours faithfully

Name Shaer Halewood ……………………………
Position Director of Finance & Investment (S151).
Date November 2020.

Name……………………………
Position Chair of Audit & Risk Committee .
Date November 2020.

Signed on behalf of **Wirral Council** as administering body of **Merseyside Pension Fund.**

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WIRRAL

PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	**PENSION BOARD REVIEW 2019-20 AND WORK PLAN 2020-21**
REPORT OF:	**INDEPENDENT CHAIR OF PENSION BOARD**

REPORT SUMMARY

The report of the Independent Chair of the Wirral Local Pension Board provides an overview of the Board's activities during 2019-20 and work plan for 2020-21.

The Board's terms of reference have been revised to permit virtual meetings and define terms of attendance.

RECOMMENDATION/S

That members note the report of the Independent Chair of the Pension Board.

That members approve the amendments to the Board's Terms of Reference.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 It is important that Pensions Committee is aware of the Local Pension Board's activities in supporting the Administering Authority.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 The 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 Under Section 11.3 of its Terms of Reference the Board is required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review was prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 14 September 2020 before its presentation to Committee.

3.3 During the current pandemic and national emergency measures it is essential that the Pension Board finds ways of exercising its statutory functions and it is clear that arranging virtual meetings satisfies the requirement of Regulation 106 (8) of the LGPS Regs 2013, which permit the board to undertake actions to facilitate the discharge of its functions.

3.4 In consideration of the Scheme Advisory Board's directive and the changing operating environment of statutory and regulatory committees, section two of the ToR have been expanded to include paragraphs 2.4 & 2.5 which permit virtual meetings using video and telephone conferencing technology and define the terms of attendance. A new section 5, **Virtual meetings**, has also been drafted which sets outs the operational practicalities, etiquette, voting procedure and troubleshooting in the event of failure of the remote participation facility.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no implications arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are no implications arising directly from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are no implications arising directly from this report

7.0 RELEVANT RISKS

7.1 There are none arising from this report.

8.0 ENGAGEMENT/CONSULTATION

8.1 The changes proposed were reported to and discussed at the Pension Board meeting on 14 September 2020.

9.0 EQUALITY IMPLICATIONS

9.1 No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

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

APPENDICES

Appendix 1 Pension Board Annual Review
Appendix 2 Pension Board Terms of Reference

BACKGROUND PAPERS

BRIEFING NOTES HISTORY

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSIONS BOARD

14 SEPTEMBER 2020

SUBJECT:	**PENSION BOARD REVIEW 2019-20 AND WORK PLAN 2020-21**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**INDEPENDENT CHAIR OF PENSION BOARD**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

This report which has been prepared in accordance with the Terms of Reference of the Pension Board reviews the work and performance of the Board and its Members during its fifth year (1 April 2019 to 31 March 2020). This report also includes a proposed Work Plan for 2020-21.

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

2.0 BACKGROUND AND KEY ISSUES

Under Section 11.3 of its present Terms of Reference (approved by the Wirral Council at its meeting held on 9 December 2019) 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 14 September 2020. 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 2 November 2020.

Purpose and Constitution of the Merseyside Local Pension Board

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 Pension Board consists of nine members and is constituted of four Employer representatives, four Scheme member (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.

Terms of Reference of the Merseyside Pension Board

The present Terms of Reference of the Pension Board were approved by the Wirral Council at its meeting held on 9 December 2019.

The original Terms of Reference were approved by the Wirral Council on 16 March 2015 and revised at the Council meeting held on 10 December 2018. The Pension Board Review 2018-18 (which was considered by the Pension Board on 12 November 2019 and the Pensions Committee on 3 February 2020) provides a description and explanation of the 2018 revisions which included increasing the minimum number of Board meetings to be held annually from two to four.

When the Pension Board's Terms of Reference were under review in 2018 the Pensions Committee (on 13 June 2018) specifically requested Officers to undertake a review relating to the terms of appointment of the Pension Board members. Consequently, the Director of Pensions undertook a review which resulted in a number of proposed changes to the Terms of Reference of the Pension Board. These reflected the revisions to the Board's Terms of Reference of 2018, the actual activity of the Board, the increasing complexity of the LGPS and The Pensions Regulators increased expectations of Pension Boards. This review resulted in the preparation of new Pension Board Terms of Reference which were approved by the Pensions Committee on 4 November 2019 and subsequently by the full Council on 9 December 2019.

The present Terms of Reference are clear that the Pension Board does not assist the Administering Authority (Pensions Committee) only at its formal meetings but on an ongoing basis as set out in the new points j to m of Section 4.7. These changes specifically require the Independent Chair to assess, constructively challenge and provide comments on draft Strategy and Policy documents of the Merseyside Fund and Consultations issued by Government, Regulators, the Scheme Advisory Board and equivalent bodies. Point j effectively requires the Director of Pensions and Head of Pensions Administration to maintain ongoing communication with the Independent Chair.

This means that the Administering Authority is positively seeking the input of the Pension Board throughout the policy making process and not merely at the point when a final draft has been prepared and that there is a definite desire by the Administering Authority to involve the Pension Board in the ongoing development of the Merseyside Pension Fund. These changes also, I suggest, reflect the positive value that the Pensions Committee of the Wirral Council places on the role and input of the Pension Board. I would also comment that this development reflects very positively on the whole Pension Board as these changes have, I believe, only occurred due to the positive and diligent approach taken by all individual members of the Board since its creation in 2015.

The 2019 Terms of Reference changes also included an amendment to the Quorum requirements to assist the practical operation of the Board. This amended the minimum quorum from 4 voting members to include 2 Employer and 2 Employee representatives to 4 voting members to include at least one Employer or Employee representative. The method for determining the remuneration of the Independent Chair and Members of the Board was also updated.

Board Meetings 2019-20

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:

	17/07/19	12/11/19	5/2/20	31/3/20 *
LGPS Update	/	/	/	/
Investment Pooling Update	/	/		/
Pensions Administration Report/Benchmarking	/	/	/	/
Working Party (IMWP/GRWP) Minutes	/	/	/	/
Risk Register	/	/	/	/
Pension Fund Budget	/		/	
Treasury Management Annual Report/Policy	/		/	
Training and Development	/	/	/	
Audit Findings Report	/			
Fund Annual Report and Accounts	/			
Internal Audit Plan and Report	/			
Wirral Council Motion (Climate Change)	/			
Scheme Pays Policy	/			
Governance Policy Statement		/		
Pension Regulator Engagement Report		/		
Pension Board Terms of Reference		/		
Catalyst Fund Update		/		
Compliance Manual		/		
Draft Pension Board Review and Work Plan		/		
Actuarial Valuation			/	
Funding Strategy Statement			/	
Employer Covenant Analysis				/
Revised Investment Strategy Statement			/	
Good Governance (in the LGPS) Project			/	
Property Arrears			/	
Internal Management			/	
External Audit Plan				/
Gifts and Hospitality				/
Admission Body Application				/
Write-off of irrecoverable pension payments				/

* Meeting scheduled for 31 March 2020 cancelled due to COVID-19 restrictions

In accordance with the revisions to the Board's Terms of Reference of December 2018 four Board meetings were arranged for the period 1 April 2019 to 31 March 2020, the period covered by this review. The meetings scheduled for 17 July 2019, 12 November

2019 and 5 February 2020 took place in Liverpool as planned. The meeting scheduled for 31 March 2020 had to be cancelled at short notice due to COVID-19. The Director of Pensions had consulted with the Independent Chair of the Pensions Board regarding issues to be considered at this meeting and the Fund Officers were in the process of preparing the reports. Therefore, the Items that would have been considered by the Board on 31 March 2020 have been included in the Table above. Attendance by Members of the Pensions Board at the meetings actually held during 2019-20 was 79%. As will be observed from the Table above during 2019-20 the Pension Board received reports on a very broad range of issues across the whole range of the Merseyside Pension Fund's activities including governance, risk/finance, pensions administration, investment and actuarial matters. The Board also received a report at each meeting in respect of national LGPS issues under the heading LGPS Update. These reports as written were not only broad in their coverage but were also well explained, and expanded as required, by the Head of Pensions Administration in her oral presentations to the Board. These updates were also, in my view, very helpful to us as individual Board members in contributing to fulfilling our knowledge and understanding (Training and Development) obligations as required by the Public Service Pensions Act 2013.

The LGPS Updates included coverage of what are surely the most important governance and operational challenges currently relating to the LGPS. These are, respectively, the "Good Governance in the LGPS" project and the age discrimination in the present LGPS benefit arrangements highlighted as a result of the "McCloud" case. In relation to "McCloud" the oral presentation made (in respect of the LGPS Update report) by the Head of Pensions Administration to the Board on 5 February 2020 left no doubt as to both the importance and complexity of this issue which will result in a huge additional administrative burden for every LGPS Fund across England and Wales.

The LGPS Update Report to the meetings of 17 July 2019 and 12 November 2019 included an explanation and update relating to the Scheme Advisory Board (SAB) project "Good Governance in the LGPS" which has the active support of the Ministry of Housing Communities and Local Government (MHCLG). On 5 February 2020 the Board received a report which provided an update on the work of the "Good Governance in the LGPS" project and in particular the Phase II report which was prepared by Hymans Robertson with the advice of two Working Groups and issued in November 2019. The Officer report summarised the recommendations of the Good Governance Phase II report which proposes a number of fundamental changes to significantly enhance the governance requirements upon each of the (now) 85 separate LGPS Funds in England and Wales and described the next steps in the project (Phase III) agreed by SAB. The reforms proposed in the review will not be optional to LGPS Funds. They will be compulsory and compliance required under new Statutory Guidance which will be issued by MHCLG. Compliance will be assessed by an independent review process overseen by the SAB which could result in a referral to the TPR or ultimately the MHCLG. Crucially the Officer report stated that the Merseyside Fund was undertaking a preliminary Gap Analysis and preparing for the requirement to implement in full the new LGPS governance arrangements once finalised.

As a member of both the SAB Working Groups that advised on the Phase II report and as a member of the Phase III Implementation Group appointed by SAB to further progress the "Good Governance in the LGPS" project to finalisation I was particularly impressed with the positive approach to this matter expressed in the 5 February 2020 Officer report to the Board, and also the oral presentation by the Head of Pensions Administration who (in my view rightly) stressed that the Good Governance project is seeking to strengthen LGPS governance going forward whilst maintaining strong links to democratic accountability. Given the fundamental importance of the "Good Governance in the LGPS" project a further report on the project and the Merseyside Pension Fund response has been included in the Pension Board Work Plan 2020-2021. The Merseyside Pension Fund operates within the overall context of the LGPS in England and Wales. Therefore, it is important that the Pension Board is aware of and appreciates national issues relating to the Scheme. In addition to the broad ranging and informative LGPS Update reports and the specific report on the "Good Governance in the LGPS" project, already referred to, the Pension Board also received a report relating to a nationally focussed review of the LGPS undertaken by The Pensions Regulator.

The Board meeting held on 12 November 2019 received a report entitled "The Pensions Regulator's Engagement with LGPS Funds." This informed the Board of a report issued by The Pensions Regulator (TPR), in September 2019, following an engagement exercise with ten LGPS Funds to understand the challenges facing them. The Officer report was clear that the Merseyside Pension Fund (MPF) positively welcomed this review of the LGPS and that Officers would be assessing the MPF's policies, strategies and procedures against the findings of The Pension Regulator's report. To seek assurance with regard to this the Pension Board Work Plan 2020-2021 includes a report on the MPF's Follow Up to the Pension Regulator's Engagement with LGPS report.

In my 2018-19 Pension Board Review I referred to a report received by the Board in October 2018 in respect of Actuarial Valuation issues and commented that this report and an accompanying document from the Fund Actuary, Mercer, *"clearly demonstrated to the Board a positive and proactive approach to both engagement with Employers and the overall approach to the (then) forthcoming Actuarial Valuation"* On 5 February 2020 the Board received a report summarising the outcomes of the 2019 Actuarial Valuation. It is consequently pleasing to note that, based on this report and the Officer presentation, the Actuarial Valuation had involved in-depth discussions between the Fund Actuary (Mercer), Officers and Employers in relation to the core financial and demographic assumptions. In addition, initial individual Employer results had been provided in November 2019. Crucially, the final Actuarial Valuation results were subject to consideration of Employer covenant reviews thus providing additional assurance and confidence to both the Fund and all Employers collectively.

As is required the Actuarial Valuation was accompanied by a review of the Funding Strategy Statement (FSS). An explanatory report and the proposed revised FSS was provided to the Board at its meeting held on 5 February 2020. It was positive to see that consultation with Fund Employers was undertaken in November 2019.This allowed for Employer feedback to be genuinely considered. The Board also observed that the Fund had responded positively to Employers in terms of permitting the prepayment of future service contributions in that it had initiated a pilot for a small number of larger Employers. The Board was concerned that this pilot should be carefully evaluated. Consequently, the Board resolved that *"Following a pilot of prepayment of Future Service contributions by large employers an update report be brought to a future meeting of the Local*

Pensions Board on the impact on the operational activities of administration, treasury management and investment management." This is expected during 2021-2022.

A report on the Fund's revised Investment Strategy Statement was presented by the Director of Pensions to the 5 February 2020 meeting of the Board. I would reiterate the comments of Geoff Broadhead (Large Employer representative) who on behalf of the Board, as the Minutes record, expressed thanks *"…for the clarity of the report which Members agreed presented complex issues in an easy to understand way."*

Overall Merseyside Pension Fund governance as it actually operates, together with the operation and performance of the Pensions Administration service remained the principal focus of the Board in 2019-20, as in previous years. The Fund Risk Register, which is fundamental to effective governance, was presented, considered and observations made at each Board meeting held during 2019-20. As the Board Minutes of 12 November 2019 state, it is positive that the Risk Register is considered and reviewed by each of the (Officer) Fund Operating Group, the (Elected Member led) Governance and Risk Working Party and the Pension Board. This facilitates consideration of risk by different Fund stakeholders with different perspectives.

The Board's focus on overall Fund governance was further facilitated by consideration, as in previous years, at each Board meeting of the Minutes of the Fund's two standing Elected Member led working groups - the Investment Monitoring Working Party (IMWP) and the Governance and Risk Working Party (GRWP). Continuing the established practice of Pension Board Members attending some meetings of the IMWP a member of the Board attended the 14 November 2019 meeting and two members attended the 25 February 2020 meeting as Observers. The Minutes of the Governance and Risk Working Party (GRWP) provided, amongst other assurance, clear evidence of the broad consideration of Pension Administration issues at its meetings. A member of the Pension Board attended 14 November 2019 meeting of the GRWP as an Observer.

During 2019-20 (as in 2018-19) the Board also received a broad range of reports and documents relevant to the overall governance and operation of the Merseyside Pension Fund. These included the Fund Budget 2019-20 and Outturn for 2018-19; the (External) Audit Findings report for year ending 31 March 2019; Internal Audit Report 2018-19 (and Plan 2019-20)**;** Statement of Accounts and Fund Annual Report for the year ended 31 March 2019; Treasury Management Annual Report 2018-19 and Treasury Management Policy 2020-21. As in previous years the presentation of all these reports and documents gave the Board clear opportunity to understand, review and ask questions regarding the overall planning and operation of the Fund's activities. and their evaluation by independent persons (External and Internal Audit).

The Internal Audit Report 2018-19 and Plan 2020-21 together with the presentation by the Chief Internal Auditor of the Wirral MBC provided assurance as to the breadth of the audit work undertaken in 2018-19 and planned for 2020-21 which covered/will cover Pensions Administration, Investment, Accounting & Compliance and Cross Cutting issues.

For both Employers and Employees who are the two groups represented on the Pension Board the issue of Pensions Administration is the most immediate and important

interface between them and the Merseyside Pension Fund. It is therefore appropriate that the Pension Board, at each meeting during 2019-20 received both a detailed written report and oral presentation from the Head of Pensions Administration on a wide range of Pensions Administration matters including detailed statistics and narrative commentary. These reports and presentations were subject to active comment and discussion as well as significant questioning and constructive challenge by Board members representing both Employers and Employees and the Independent Chair.
The issue of Cyber Security must be a matter of robust activity, ongoing development and vigilance for all Pension Funds. This is also an area of particular interest to The Pensions Regulator (TPR). It was therefore appropriate that this matter was covered in very significant detail in the Pensions Administration Report presented to the Board at its meeting held on 12 November 2019 and has now been added to the areas to be included in all subsequent reports.

The decision of the Pensions Committee to approve a Voluntary Scheme Pays scheme as reported to the Board on 17 July 2019 is a welcome development which will be beneficial to both Employees (who are subject to tax charges for breaching the HMRC Annual (pensions contribution) allowance) and Employers in terms of assisting them in recruiting and retaining senior staff. It will however, as the report highlighted, also have clear resource implications. Clearly (from the perspective of the Pension Board) these need to be taken into account in preparation of the Pension Fund Budget.

The development and implementation of Asset (Investment) Pooling continued to be a high profile development in the Local Government Pension Scheme (LGPS). This will have a significant effect on both the investment and overall governance arrangements of the LGPS. In 2019-20 (as in 2018-19) the Board received in depth documentation on the development and activity of the Northern LGPS pooling arrangement which were supplemented by the clear explanations provided to the Board by the Director of Pensions.

These updates on Investment Pooling included the draft Pool Operating Agreement, pooling updates provided to the Pensions Committee and the Minutes of the Northern LGPS Shadow Joint Committee. As the Minutes of the Board Meeting of 17 July 2019 record the Board discussed the draft Operating Agreement in detail. It is extremely positive that the original stated intention that the Northern LGPS Joint Committee consist of one third Employee representatives was included in the final Operating Agreement as signed by the Wirral MBC, Bradford MBC and Tameside MBC. This action of the three Northern LGPS Administering Authorities in agreeing this level of Employee representation is extremely positive and an excellent example to all the other LGPS Asset Pools across England and Wales. This level of Employee representation on the Northern LGPS Pool Joint Committee should clearly provide genuine diversity of approach and experience to the Committee which should help assist in good decision making.

In 2018-19 (27 March 2019 meeting) the Pension Board passed a motion expressing its grave concern over suggested amendments to the MHCLG's approach to Asset Pooling governance arrangements which it considered were excessively prescriptive and unnecessarily expensive to the Northern LGPS Pool. It is very pleasing to note from the Minutes of the Northern LGPS Pool Joint Committee the proactive approach of the pool in engaging with MHCLG to ensure that Asset Pooling governance requirements as set down by the government do genuinely meet the needs of the LGPS – particularly the Administering Authorities but also its Employers and individual members - and that they do not result in the forced establishment of arrangements which are not necessarily in the best interests of the LGPS and its stakeholders.

In accordance with the LGPS Regulations the Pensions Board has no role in Investment decision making. However, it has a clear role in reviewing the governance and operational arrangements relating to the investment activity of the Merseyside Pension Fund. As has already been described, in this report, the Pension Board received the Funds revised Investment Strategy Statement; receives the Minutes of the Investment Monitoring Working Party (IMWP) - the principal forum for the consideration of investment matters; and Board Members are able to, and do, attend the IMWP as Observers.

Furthermore during 2019-20 the Board received reports on four specific important aspects of Investment governance and operations. Firstly the Motion on Climate Change, debated and agreed by the Wirral Council on 18 March 2019, which was proposed by the present Chair of the Pensions Committee and seconded by the then Committee Chair highlighting the positive and proactive work of the Merseyside Pension Fund to integrate climate risk into both the investment strategy and actual investments of the Fund. Secondly the Catalyst Fund which seeks to help deliver economic growth projects in Merseyside while providing a commercial return for the Pension Fund – the Board indicated it was supportive of the Catalyst Fund approach. Thirdly a report on revisions to the Compliance Manual. Fourthly an update on Internal Investment Management Arrangements.

The 12 November 2019 Board meeting received a report on and copy of Section 5 of the Compliance Manual (Management of Investments) which had been revised in the light of the extension of the Fund's Internal Management activity. This opportunity to formally examine and seek information in relation to the Compliance Manual provided assurance that the Compliance Manual is actively reviewed in the light of developments in investment activity/practice by the Fund. The Pension Board received a copy of the entire Compliance Manual on the last occasion it was fully revised (in 2017) and looks forward to receiving reports on and copies of future revisions.

As reported in the 2018-19 Pension Board Review the Board had discussed and indicated that it was clearly favourable to the further development of in-house Investment capability as described in the report of the Director of Pensions to the Board of 27 March 2019. In particular the Board discussed the recruitment and retention of Investment staff and encouraged the Director of Pensions to explore options to facilitate the recruitment and retention of suitable staff to meet operational requirements. At its meeting on 3 February 2020 the Board received an "Update on Development of Internal Investment Management Arrangements." This included details of a proposed further expansion of internal management of listed equities which it was believed would deliver improved net investment returns to the Fund. As in 2019 the Board was supportive of the principle of extending the internal management of investments but was concerned as to the practicalities of recruitment and retention of suitable staff. The Pension Board therefore resolved to request the Director of Pensions to report to a future meeting of the Board on developments and recruitment of staff. I would further state that it is noteworthy that Recommendation E.5 of the "Good Governance in the LGPS Phase II report" published by the LGPS Scheme Advisory Board for England and Wales in November 2019 states *"Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function…"* This recommendation, of course, applies to all Pension Fund posts and not only those concerned primarily with Investment related issues. The Board looks forward to receiving a further report from the Director of Pensions on the development of Internal Investment Management including specific coverage of recruitment and retention issues.

Training and Development

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 include detailed requirements and guidance in this respect. Each Board Meeting during 2019-20 received a report reminding Board Members of their training and development responsibilities and providing details of training and development opportunities.

As pointed out earlier in this report the LGPS Update to each Pension Board meeting provided individual Board members with knowledge and understanding in respect of significant national LGPS issues. In 2019-20 these included: The MHCLG Consultation on Changes to the Local Valuation Cycle and the Management of Employer Risk; HM Treasury Consultation on Restricting Exit Payments in the Public Sector; the Scheme Advisory Board "Good Governance in the LGPS" project; the "McCloud case and its implications; Additional Voluntary Contributions with specific reference to Equitable Life.

In 2019-20 Board Members attended a range of external training and conference events. These included the Pensions and Lifetime Savings Association Local Authority Update (1 Member), Annual Conference (3 Members) and Investment Conference (1 Member); LAPFF Conference (2 Members) and Pension Board specific update seminars organised by CIPFA (6 attendances by 3 Members).

The Investment Monitoring Working Group and the Governance and Risk Working Party are excellent forums for Board Members to broaden their knowledge and understanding of a wide range of issues in the specific context of the Merseyside Pension Fund. Three Members attended Working Group meetings during 2019-20. Four Members of the Pension Board attended the Annual Employers Conference held in November 2019 which as in previous years covered a wide range of issues across governance (including a presentation by Bob Holloway of the Scheme Advisory Board), administration (including the Digital Transformation Programme), investment (including Performance and Responsible Investment), Actuarial issues (with a specific focus on the 2019 Actuarial Valuation) as well as a specific session on Asset (Investment) Pooling.

Reporting Breaches of the Law to the Pensions Regulator

The Pension Board does not itself have decision making powers. In respect of the Reporting of Breaches of the Law to the Pensions Regulator (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 an important 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.

During the period covered by this report there was one occasion 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. At the Board meeting held on 5 February 2020 Officers raised a Breach of the Law in relation to the erroneous sharing of personal information, relating to a small number of individual members of the Fund, by a third party provider to the Merseyside Pension Fund. Officers provided the Board with a detailed written explanation and analysis of the breach. The Board discussed in detail the circumstances, effects and reaction to the breach. The Board raised concerns as to the nature of the data erroneously shared but unanimously confirmed the Officers' view that the breach was not material (as defined in The Pension Regulators Code 14) and therefore should be recorded in the Fund Breaches Log but did not need to be reported to The Pensions Regulator or the Information Commissioner Office. It was noted that use of the third party supplier had been suspended.

Members of the Pension Board

Notwithstanding the excellent support the Board receives from the Director of Pensions and his Senior Officers the Board could not function effectively and fulfil its role under the LGPS Regulations of *"assisting"* the Administering Authority without good Members. In this regard I am of the view that the Pension Board was in 2019-20, as in previous years, was very fortunate. The Members of the Board, both Employer and Employee representatives, brought a clear diversity of perspectives coupled with extensive experience and understanding of both pensions and the Employer/Employee perspective.

Both Employer and Employee representatives actively discussed, commented upon and constructively challenged the reports received by the Board and the presentations by Officers. There was genuine and active engagement across the members of the Board. I would wish to place on record my personal thanks to each member individually – Geoff Broadhead, Peter Fieldsend (who was appointed a new Employer representative in November 2019), Roger Irvine, Pat Moloney, Donna Ridland, Lynn Robinson and Paul Wiggins.

In June 2020, subsequent to the 2019-20 Year End, Paul Wiggins died after a long illness. Paul had served as an Employee representative on the Board since its creation in 2015 and previously as a Co-Optee on the Pensions Committee of the Wirral MBC. Paul was exemplary in both his approach to membership of the Board and in his approach to us all as individuals. It was a privilege to the Board that he served as a Member. Paul will be remembered with gratitude and much affection.

Support for the Board by the Administering Authority during 2019-20

If a Pension Board is to genuinely contribute to the Governance and operation of an LGPS Fund then the active and ongoing support of the Administering Authority is essential. The Merseyside Pension Board received this in 2019-20 as it has since its creation in 2015.

It is clear that the work of the Board is genuinely valued by the Pensions Committee. During the year I had a number of positive interactions with the Chair of the Pensions Committee, Councillor Pat Cleary, and am aware of positive comments that he has made to the Pensions Committee regarding the activity of the Board. The proactive approach of the Pensions Committee in 2019 to further revising the Board's Terms of Reference and referring these to the full Council for approval is a very clear indication of the Committee's desire to enable the Board to assist it as effectively as possible.

As in previous years the Board received extremely positive support, advice and guidance from the Fund Officers. Meetings of the Board were supported and attended by the Director of Pensions and the senior members of his team responsible for Pensions Administration and the Finance/Risk Management of the Fund. This Officer support is the same as that provided to the Pensions Committee and further demonstrates that the Administering Authority genuinely encourages and supports the positive participation of the Board in the governance and operation of the Fund. There continued to be frequent discussions between Board meetings, involving myself and the Director of Pensions/ Head of Pensions Administration. These covered a range of issues and were initiated by both myself and the Officers. On behalf of the Board I would wish to thank the Officers for their positive approach and their reports, guidance and advice.

Recommendations made to the Scheme Manager (Pensions Committee)

There were no formal recommendations made by the Board to the Pensions Committee during 2019-20. 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.

The Director of Pensions and Head of Pensions Administration also specifically draw to the attention of the Pensions Committee issues that the Board has made particular comment on or passed a resolution in respect of. In 2019-20 these included the Board's clear support for the approach to Asset Pooling of the Pensions Committee and the strong opposition of the Board to the proposal in the MHCLG Consultation "Changes to the local valuation cycle and the management of employer risk" to remove the requirement for Further Education Corporations, Sixth Form College Corporations and Higher Education Corporations in England to offer new employees access to the LGPS.

Pension Board Review 2018-19 and presentation to the Pensions Committee

The Pension Board Review 2018-19 and Work Plan 2019-20 was considered and approved by the Board on 12 November 2019. This was then considered by the Pensions Committee at its meeting held on 3 February 2020. The Independent Chair attended this meeting and presented the review. The Chair of the Pensions Committee, Councillor Pat Cleary, expressed his appreciation for the work of the Pensions Board.

Councillor Cleary particularly expressed his thanks to the Board for its clear statement and Resolution on Asset Pooling (of 27 March 2019) which was very supportive of both the Wirral Pension Committee's stance and that of the Northern LGPS pool as a whole. The Chair of the Pensions Committee also referred to the positive relationship between the Committee and the Board and requested that his thanks be passed to the Board Members.

Pension Board Costs of Operation 1 April 2019 to 31 March 2020

Conferences	**£**
Travel	**£**
Allowances	**£**
Other	**£**
Total	**£**

Proposed Pension Board Work Plan 2020-21

The proposed Work Plan for 2020-21 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 and further draft Statutory Guidance on this issue is expected from Central Government in 2021. The Work Plan will be updated as necessary during 2020-21.

Agenda item	**8/6/20 (Briefing)**	**14/9/20**	**10/11/20**	**30/3/21**
LGPS update	/	/	/	/
Pensions Administration Report/Benchmarking	/	/		/
Pooling update	/	/	/	/
IMWP/GRWP Minutes	/	/	/	/
Risk Register	/	/	/	/
External Audit Plan	/			
Employer Covenant review	/			
Supreme Court Ruling	/			
Draft Board Review & Work Plan		/		
Training and Development		/	/	/
Investment Performance		/		
Audit Findings Report			/	
McCloud Remedy Consultation		/		
RPI Consultation Response		/		
Fund Annual Report & Accounts			/	
Fund Business Plan/Budget		/		/
Gifts &Hospitality Register			0	
Catalyst Fund Update			/	
Investment Strategy Statement			/	

Compliance Manual			/	
Bond Review			/	
Internal Audit Report		/		
Customer Service Charter				/
Good Governance in the LGPS				/
Follow up to TPR Engagement Report				/
Internal Management				/

Conclusion and Going Forward – the Merseyside Pension Fund and the development of the LGPS in 2020-2021 and beyond

The Merseyside Pension Fund operates within the overall regulatory/governance framework as defined in the LGPS Regulations LGPS Statutory Guidance and other relevant regulatory and guidance requirements. The Fund must also take careful cognisance of the expectations of the Ministry of Housing, Communities and Local Government (MHCLG); the Scheme Advisory Board for England and Wales (SAB); and The Pensions Regulator (TPR) all of whom have oversight of the LGPS as operated at local level. Reports and presentations made to the Pension Board in 2019-2020 very clearly indicate that the Merseyside Pension Fund (MPF) understands and takes very seriously its present obligations. This is pleasing to report.

However, to fulfil its obligations and deliver an effective service to Employers and in particular the 140,000 individual members the MPF will need to prepare very carefully for the future. In 2020-2021 and beyond two issues in particular will be of critical importance to the LGPS at an individual Fund level across England and Wales. These are the successful implementation of the recommendations of the “Good Governance in the LGPS” project and the implementation of the remedy to the age discrimination (commonly referred to as the “McCloud” case) in the current LGPS benefit arrangements. Unless both of these issues are addressed effectively by the local Funds across England and Wales I personally fear for the future of the local and democratically accountable LGPS arrangements which I believe can best serve the interests of all LGPS stakeholders. These will inevitably require additional resourcing even by a Fund such as Merseyside which, based on the reporting to and constructive challenge by this Board since 2015, regularly reviews requirements, risks and consequently resourcing.

Therefore I believe it is incumbent on the Pension Board, in this Annual Report to the Scheme Manager (the Pensions Committee of the Wirral MBC) to be clear as to the importance the Board places on appropriate attention to and activity with regard to preparation/implementation of both the “Good Governance in the LGPS” project recommendations/requirements and the remedy to the existing age discrimination in respect of benefit entitlement identified as a result of the “McCloud case.” There can be little doubt that both of these will have resourcing, and probably significant, resourcing requirements. Consequently, the Pension Board looks forward to updates as to how these issues are been actively addressed. In addition, the Pension Board anticipates that these matters will be fully considered and reflected in the preparation of the 2021-2022 Merseyside Pension Fund Budget which will be presented for final approval by the Pensions Committee at its meeting to be held in February 2021.

John Raisin
Independent Chair
Merseyside LGPS Local Pension Board

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Director of Pensions and Head of Pensions Administration have both been consulted in the preparation of this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That the Board receive and approve the Pension Board Review 2019-20.

13.2 That the Board approves the proposed Work Plan 2020-21

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Section 11.3 of the Terms of Reference of the Local Pension Board of the Merseyside Fund (as revised on 9 December 2019) states that *“The Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Scheme Manager…”*

REPORT AUTHOR: JOHN RAISIN
Independent Chair
Merseyside Local Pension Board
21 August 2020

APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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Local Pension Board of Wirral Borough Council

Terms of Reference

1. Introduction

1.1 This document sets out the terms of reference of the Local Pension Board of Wirral Borough Council (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

1.2 The Board is established by the Administering Authority and operates independently of the Pension Committee. Relevant information about its creation and operation are contained in these Terms of Reference.

1.3 The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.

1.4 The Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

2. Statement of Purpose

2.1 The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

a. to secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme., and requirements imposed by the Pension Regulator in relation to the Scheme and;

b. to ensure the effective and efficient governance and administration of Merseyside Pension Fund.

c. To provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Board does not have a conflict of interest.

2.2 The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

2.3 The Board shall meet regularly to discharge its duties and responsibilities effectively, but not less than four times in any year. There is also the provision for special meetings to be convened at notice.

2.4 Board meetings will take place in person at a nominated site, but where circumstances warrant, a 'virtual event' can take place via electronic means, using video and telephone conferencing technology. Virtual or hybrid meetings will take place only with the approval of the Director of Pensions in consultation with the Independent Chair.

2.5 Attendance both in person or virtually will be for the whole of the meeting and not just specific agenda items nor solely for voting purposes. It is not the intent for hybrid meetings to take place whereby some board representatives attend in person with others accessing the meeting remotely unless there are extenuating reasons for non-attendance.

3. Scheme Manager Consents

3.1 The Board shall not:

- Overturn investments decisions that have been made by the Pension Committee but may consider whether due process has been followed to validate the decision taken.
- Amend the strategies prepared in compliance with section 57 to 61 of the LGPS regulations subsequent to prior consultation with it on the draft strategies and consequent approval by the Pension Committee
- Consider or become involved in any specific internal dispute resolution appeal
- Enter into contracts on behalf of the Administering Authority
- Dismiss any members of the Pension Committee
- Compromise the Pension Committee's ability to comply with its fiduciary duty to the Pension Fund and its members.

4. Membership and Appointment Process

4.1 The Board shall consist of eight voting members to be constituted as follows:

Four employer representatives, of whom;

a. Two shall be nominated from Local Authorities, Police/ Fire/ Transport Authorities, Parish Councils

b. One from the Academies / Further/Higher Education Bodies

c. One from Admitted Bodies excluding employers admitted by virtue of undertaking a commercial contract connected to a function of a scheme employer.

4.2 Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

4.3 Employer representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required:

Four scheme member representatives of whom;

a. Two shall represent and be drawn from active members of the Merseyside Pension Fund;

b. Two shall represent and be drawn from pensioner and deferred members of the Merseyside Pension Fund.

4.4 The constitution of employer or employee representatives may be varied at the discretion of the Scheme Manager in order to achieve necessary representation or balance on the Board. Member representatives shall either be scheme members or have capacity to represent scheme members of the Fund

4.5 Member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

4.6 In addition, one other non-voting independent member selected by the Scheme Manager, shall be appointed as Chair of the Board, with independence defined as follows:

a. Not a current elected member or employee of a participating scheme employer or an individual with a financial or other material interest in either the Administering Authority or any of its constituent employers

b. Has not been an elected member or employee of a participating scheme employer in the past 5 years

c. Is not an active, pensioner or deferred member of Merseyside Pension Fund.

4.7 It will be the role of the Chair to:

a. Ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met, instances of a failure to reach a consensus position will be recorded and published.

b. To uphold and promote the purpose of the Board and to interpret its constitution and Terms of Reference when necessary.

c. Ensure that the Board members have the knowledge and skills as determined in the Fund's Training Policy and other guidance or legislation and maintain a training record.

d. Agree the agenda and minutes for each Board meeting with the Board Secretary (Director of Pension Fund)

e. Ensure an attendance record is maintained along with advising the Scheme Manager on expenses to be paid.

f. Advise the Scheme Manager on any required budget for the Board. The Chair shall not incur any expenditure on behalf of the Board without seeking the prior written consent of the Scheme Manager.

g. Write reports required by Scheme Manager on the performance of the Board.

h. Liaise with the Scheme Manager on the requirements of the Board, including advanced notice for Officers to attend and arranging dates and times of Board meetings.

i. To annually review and report on the performance of the Board.

j. To respond to matters arising between meetings of the Pension Board and liaise, as appropriate, with the Director of Pensions and Head of Pensions Administration in order to provide such input as to ensure the Board effectively discharges its duties and responsibilities.

k. To discuss specifically with the Director of Pensions and/or the Head of Pensions Administration, and after due discussion and consideration, give a view upon, any Electronic Decision Notice (EDN) issued to Board members in respect of any specific breach (or likely) breach of the law identified by the Fund and notified to members of the Board in accordance with the resolution of the Wirral Pension Committee of 16 November 2015 and Section 18.3 of these Terms of Reference.

l. To assess, constructively challenge and provide comment on draft Strategy and Policy documents of the Merseyside Pension Fund which are required under the LGPS Regulations, Statutory Guidance or best practice.

m. To assess, constructively challenge and provide comment on draft responses of the Fund to Consultations issued by Government, Regulators, the Scheme Advisory Board and equivalent bodies.

4.8 The Chair's decision on all points of order, procedure and protocol shall be final.

4.9 The appointment of the Chair by the Scheme Manager will only be made following an openly advertised competitive process for the role which shall also be subject to the passing of a motion by the Board to approve the successful candidate.

4.10 Members of the Board shall only be appointed after all employers or members from the respective employer section or membership cohort have been invited to put forward nominations or expressions of interest.

4.11 Successful employer and employee representatives will be selected by the Scheme Manager having taken account of their capacity to represent other scheme employers and members, attend meetings and undertake extensive training.

4.12 Members in all categories will only be appointed by the Scheme Manager if they commit to acquire the knowledge and skill requirement set out in the relevant regulations and guidance, as defined in section 8 of this document.

5. Virtual Meetings

5.1 To avoid unwanted background noise, members are asked to mute their microphones whilst not speaking.

5.2 When a meeting is conducted virtually, members who wish to speak or ask a question must click on the 'raise your hand' icon within the collaboration software. The chair will invite the person to speak at the appropriate time and members must state their name before making a comment or asking a question.

If the member is joining the virtual meeting by telephone, members are asked to not interrupt another participant but to carefully choose an opportune time to ask the Chair whether they would be allowed to comment or ask a question.

5.3 Where the meeting is conducted virtually and there is a failure of the remote participation facility, the Chair will declare an adjournment while the fault is addressed.

5.4 If it is not possible to address the fault and the meeting is inquorate, the meeting will be abandoned until such time it can be reconvened. If the meeting is quorate, the Chair will decide if the meeting should continue, depending on the difficulties being experienced, or whether it should be adjourned until a later time or date.

5.5 If an item requires an electronic vote, the Chair will ask all members to turn their microphones on. The Chair will then read out the name of each Member in turn in alphabetical order and ask them how they wish to vote.

5.6 Once a Member has given their vote then microphones should be muted again. The Chair or the secretariat minuting the meeting will record the outcome of the voting and announce it at the meeting.

5.7 If an item does not appear to be contentious, the Chair for speed may ask members whether any member disagrees or wishes to abstain. This will be indicated by the member by clicking on the "raise your hand" icon or by giving a verbal notification to the Chair over telephone. If nobody objects, the motion will be carried.

6. Length of term

6.1 Members of the Board will serve for a minimum term of four years which can be extended for a further term subject to the agreement of the Scheme Manager; thereafter the formal appointment process will apply.

6.2 In recognition of the complexity of pension legislation and to assist with knowledge development and retention, the initial term of office for one of the two active member representatives shall be six years and one of the two employer representatives of the local authorities, Police/Fire Transport authorities and Parish Council shall be six years.

6.3 Other than as a result of retirement at the expiry of this period the term of office will come to an end;

a. For employer representatives who are councillors if they cease to hold office as a councillor and can no longer demonstrate the capacity to represent the specific employer category or there is disagreement from within the section;

b. For employer representatives who are not councillors, when they cease to be employed by the employing body where they were employed on appointment and can no longer demonstrate the capacity to represent the specific employer category or there is disagreement from within the section

c. For scheme member representatives if they cease to be a member of the relevant member group and can no longer demonstrate capacity to represent scheme members.

6.4 Each Board member should endeavour to attend all Board meetings during the year. Substitute members are not permitted due to the nature of the Board as a supervisory body and the need for appropriate knowledge and skills and the management of conflicts of interest.

6.5 Members of the Board shall cease to be a member of the Board if they do not attend two consecutive meetings and fail to tender apologies which are accepted by the Board.

6.6 In event of the independent member not being available for a Board meeting, a Vice Chair for that meeting will be determined by the Board members.

6.7 The removal of the independent member requires the consent of the Scheme Manager.

7. Quorum

7.1 A meeting is only quorate when at least 4 employer or employee representatives are present with at least 1 present from either category.

7.2 A meeting may commence at the discretion of the Independent Chair, without a quorum, but any decisions will be non-binding.

7.3 A meeting that becomes inquorate may continue but any decisions will be non-binding

8. Code of Conduct and Conflicts of Interest

8.1 The principles included in the Council's Code of Conduct for members apply to all members of the Board set out in the Constitution of the Council. Conflicts of interest shall be managed taking account of the requirements set out in the Council's constitution, best practice defined in the Scheme Advisory Board's statutory guidance and the Pension Regulator's Code of Practice 14: Governance and Administration of public service pension schemes.

9. Board Review Process

9.1 The Board will undertake each year a formal review process to assess how well it and its members are performing with a view to seeking continuous improvement in the Board's performance.

10. Advisers to the Board

10.1 The Board may be supported in its role and responsibilities through the appointment of advisers as agreed with the Scheme Manager. In addition, the Board will have access to the officers of Merseyside Pension Fund and where considered appropriate access to the advisers to the Pension Fund.

11. Knowledge and Skills

11.1 A member of the Board must be conversant with –

a. The legislation and associated guidance of the Local Government Pension Scheme (LGPS).

b. Any document recording policy about the administration of the LGPS which is for the time being adopted by the Merseyside Pension Fund.

11.2 A member of the Board must have knowledge and understanding of -

a. The law relating to pensions, and

b. Any other matters which are prescribed in regulations.

11.3 It is for individual Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Board.

11.4 In line with this requirement Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Board members are therefore required to maintain a written record of relevant training and development.

11.5 Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

11.6 Board members will comply with the Scheme Manager's training policy.

11.7 The knowledge and skills required by the Independent Chair will be more developed than those expected of other members of the Board. This will include, to the satisfaction of the Scheme Manager at the time of appointment, detailed knowledge and understanding of LGPS issues across all of Governance, Actuarial/Funding, Pensions Administration and Investment.

11.8 The Independent Chair shall ensure the maintenance and ongoing development of knowledge, understanding, capacity and ability to continue to discharge his/her role and responsibilities under these Terms of Reference and any other regulatory or guidance requirements throughout the term of office, to the satisfaction of the Scheme Manager.

12. Board Meetings – Notice Minutes and Reporting

12.1 The Scheme Manager shall give notice to all Board members of every meeting of the Board and shall ensure that all papers are published on Wirral Borough Council's Website at least 5 working days prior to each meeting. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

12.2 The Scheme Manager shall ensure that a formal record of Board proceedings is maintained.

12.3 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

12.4 The Board in considering items of business at its ordinary meetings shall in relation to each item consider whether it wishes to make a recommendation to the Scheme Manager, to which the Scheme Manager shall respond at the subsequent meeting.

13. Remit of the Board

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

13.2 This involves but is not limited to oversight and comment on:

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

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

c. Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.

d. Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Investment Strategy Statement.

e. Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.

f. Monitor complaints and performance on the administration and governance of the scheme.

g. Assist with the application of the Internal Dispute Resolution Process.

h. Review the complete and proper exercise of Pensions Ombudsman cases.

i. Review the implementation of revised policies and procedures following changes to the Scheme.

j. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.

k. Review the complete and proper exercise of employer and administering authority discretions.

l. Review the outcome of internal and external audit reports.

m. Review draft accounts and Fund annual report.

n. Review the compliance of particular cases, projects or process on request of the Committee.

o. Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate

13.3 The secondary core function of the Board is to ensure the effective and efficient governance and administration of the Scheme and may determine the areas it wishes to consider including but not restricted to:

a. Assist with the development of improved customer services.

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

c. Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.

d. Monitor investment costs including custodian and transaction costs.

e. Monitor internal and external audit reports.

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

g. Assist with the development of improved management, administration and governance structures and policies.

h. Review the outcome of actuarial reporting and valuations.

i. Assist in the development and monitoring of process improvements on request of Committee.

j. Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code

14. Standards of Conduct

14.1 The role of the Board members requires the highest standards of conduct and therefore the “seven principles of public life” as defined within the Council Constitution will be applied to all Pension Board members and embodied in their code of conduct.

14.2 These principles are:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness

- Honesty
- Leadership

15. Decision making

15.1 Each employer and member representative of the Board will have an individual voting right, but the Independent Chair is explicitly excluded from having the right to vote in accordance with regulation 106 (7) of the LGPS Regulations 2013. It is expected the Board will as far as possible reach a consensus.

16. Publication of Pension Board information

16.1 Stakeholders of the Scheme will want to know that the Merseyside Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

16.2 Up to date information will be posted on the Merseyside Pension Fund website showing:

a. The names, contact details and other relevant information about the Board members

b. How the scheme members are represented on the Board

c. The responsibilities of the Board as a whole

d. The full terms of reference and policies of the Board and how they operate

e. Details of the Pension Board appointment process

f. Any specific roles and responsibilities of individual Board members.

16.3 The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

17. Accountability

17.1 The Board will be collectively and individually accountable to the Scheme Manager.

18. Expense Reimbursement and Remuneration

18.1 All members of the Board shall, on the production of relevant receipts be reimbursed for travel and subsistence expenses they have incurred in the conduct of their duties as a member of the Board, including attendance at relevant training and development activities.

18.2 Members of the Board shall be reimbursed a mileage allowance for use of their own car at the rate prescribed by the Inland Revenue from time to time as adopted by Wirral Borough Council.

18.3 The Independent Chair, and Employer and Employee representatives will receive a fee determined by the Scheme Manager with reference to comparable roles in the LGPS. These shall be paid in arrears and increased annually by the Consumer Price Index.

19. Reporting Breaches

19.1 Where any breach of legislation or duties is committed or is alleged to have been committed by the Pension Committee, the Board shall:

a. As soon as reasonably possible of the potential breach meet with the Committee

b. Ask the Committee Chair to explain the actions taken and provide evidence of the legitimacy of the action taken

c. Consider the matter on the facts available and evidence provided by the Committee Chair and refer it back to Committee to reconsider and correct any areas of concern or breaches of duty or

d. Determine that no breach of duty has taken place

19.2 If it is decided that a breach has occurred, the Board shall (as required by the Code of Practice and the Pensions Act 2004)

a. Report the breach to the Monitoring Officer and Section 151 Officer and take prompt and effective action to investigate and correct the breach and its causes and, where appropriate, notify any affected members:

b. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.

c. Where prompt and effective action to remedy the breach has not been taken report the breach as a breach of material significance to the Pension Regulator and the whistleblowing provisions set out in the Administering Authority’s whistle blowing policy.

19.3 In accordance with the resolution of the Pension Committee of 16 November 2015 an Electronic Decision Notice (EDN) will be sent to each member of the Board in respect of whether or not to report a specific breach (or likely breach) identified by Fund Officers to the Regulator.

19.4 As per Regulation 106(6) and subject to the terms within this document, the Pension Board shall have the power to do anything to facilitate or is conducive to the discharge of any of its functions.

20. Interpretation

20.1 Any uncertainty or ambiguity or interpretation required relating to any matters contained in this document shall be resolved by reference to the Scheme Manager.

21. Definitions

21.1 The undernoted terms shall have the following meaning when used in this document:

"Pension Board" or "Board"	Means the local Pension Board for Wirral Borough Council as administering authority for the Merseyside Pension Fund required under the Public Service Pensions Act 2013
"Scheme Manager"	Means Wirral Borough Council as administering authority of the Merseyside Pension Fund.
"Chair"	The individual responsible for chairing meetings of the Board and guiding its debates
"LGPS"	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
"Scheme"	Means the Local Government Pension Scheme as defined under "LGPS"

These Terms of Reference shall be reviewed on each material change to that part of the Regulations covering local pension boards.

These Terms of Reference were adopted following approval by Council on 9 December 2019.

…………………………………………………………….
Signed on behalf of the Administering Authority

…………………………………………..
Signed on behalf of the Board.

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Agenda Item 9

PENSIONS COMMITTEE

2 November 2020

REPORT TITLE:	**INVESTMENT STRATEGY PROPOSALS**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Members with outline proposals for changes to MPF's investment strategy and seeks approval for officers to work with the Fund's independent advisors to develop and implement the proposals.

A letter received from Medact Liverpool and a response from the Chair is attached at appendix 1. The letter and response are pertinent to the strategy proposals.

Appendix 2 to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That Members approve the outline investment strategy proposals detailed in the appendix.

That Members authorise officers to work with the Fund's independent advisors to develop and implement the proposals with regular progress reports to the IMWP and this Committee.

That Members approve the engagement of specialist investment advice and the additional staffing resources required to support the development and implementation of the investment strategy proposals.

That members note the letter from and response to Medact Liverpool.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 A robust investment strategy is fundamental to the Fund delivering on its pension promises. Mitigation of climate risk is a prudent and necessary course of action for long-term investors.

2.0 OTHER OPTIONS CONSIDERED

2.1 A number of options have been considered in the preparation of the investment strategy review. Those deemed most suitable for the Fund have been modelled at a high level and will require further detailed work before being adopted and implemented.

2.2 Members could take no action but this would increase the likelihood of adverse financial impacts from climate change and not be consistent with the Fund's investment beliefs and RI policy. With the current direction of government policy, it is likely that further steps will be mandated for pension funds in time.

2.3 In its RI policy, MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected. Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all of its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system. The intention is to be a responsible custodian of assets on behalf of members by managing the issues arising from poor practice or irresponsible behaviour with a risk-based approach rather than developing an ethical or moral basis for decisions which can be problematic in discharging fiduciary duties.

3.0 BACKGROUND INFORMATION

3.1 MPF's investment strategy is reviewed formally when the triennial valuation is undertaken by the Fund's actuary. The Funding Strategy Statement is revised in the light of the actuary's calculation of the funding position and assumptions around future investment returns. Additionally, reviews occur quarterly at Medium Term Asset Allocation meetings and Investment Monitoring Working Parties. The Fund's investment strategy has evolved over time as markets and asset classes have developed.

3.2 In conjunction with the Fund's triennial valuation at March 2019, a more detailed review of investment strategy and asset allocation was undertaken which, for the first time, incorporated the consideration of climate risk through climate scenario modelling. In view of the Fund's improved funding position, a revised asset allocation was developed and approved by this Committee in February 2020 which reduces the Fund's equity risk by reallocating assets from equities to alternatives over time. Work has continued on the Fund's investment strategy and the management of climate risk.

3.3 In March 2016, Members recognised the implications of the Paris Accord and resolved that the Fund should align its strategy to the Paris goals, principally to limit the rise in global temperature to 1.5 degrees Celsius by achieving net zero carbon emissions by 2050. Following Paris, much discussion has centred on the practical challenges of quantifying progress against a net zero goal. Investors have needed to be able to define 'net zero' in portfolio terms and in a way that is consistent with the scientific consensus on climate change. The most recent report of the Intergovernmental Panel on Climate Change found that global emission levels will need to peak and begin a rapid decline within the present decade in order for the world to remain on track to achieve the goals of Paris.

3.4 In 2018, a review of the Fund's Responsible Investment (RI) Beliefs took place and Members adopted a revised Statement of Beliefs on RI in January 2019 to safeguard the future sustainability of the scheme. It was recognised that ESG factors will materially affect investment performance over the long-term and a strong RI policy is entirely consistent with a responsible asset owner's fiduciary duty. A strengthened RI strategy chimes with the Fund's core philosophy about the importance of actively managing risks.

3.5 In reviewing the Fund's investment strategy, as the Fund's strategic advisor, Aon have sought to suggest ways in which fund governance can be simplified, returns can be enhanced without a commensurate increase in risk and recommended consideration of additional assets and investment products that deliver these objectives with an emphasis on sustainability. The detail of the proposals is set out in appendix 2 to this report.

3.6 Officers, together with our independent advisors, have discussed the proposals with Aon and the likely implications for the Fund. In general, there is a consensus that the proposals should be adopted (with some minor revisions to reflect the effect of current arrangements). A presentation to Members followed by a discussion with them of the proposals took place at the IMWP in September with a view to recommendations being developed and a report brought to November's Pensions Committee.

3.7 In the light of the climate risk scenario analysis undertaken by Aon, the Fund has been developing its climate risk strategy to ensure the resilience of its broader investment strategy over short, medium and longer time horizons. The Fund's climate risk strategy has been developed with the understanding that this implies rapid transition to a low carbon economy which, in terms of the Fund's investment portfolio, requires that we mitigate our risk (by seeking to reduce the carbon emissions associated with the portfolio) and allocate investment to climate solutions. This has led us down the path of decarbonisation, whereby we have identified our carbon exposures and implemented measures to reduce exposure (including using a low carbon index in our passive portfolio, as well as very actively engaging with portfolio companies to move them onto credible emissions reduction pathways e.g. through the Climate Action 100+ initiative); and actively investing in low carbon economy assets (such as renewable energy projects) through our infrastructure portfolio.

With changes proposed to assets and benchmarks as a consequence of evolving best practice, factor analysis and the changing market environment, there is the opportunity for investment strategy and the underlying mandates to be redesigned at the same time to build in climate risk and ESG considerations in a consistent and structured way.

3.8 The current statutory requirement is for LGPS funds to set out in their Investment Strategy Statements "how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments" (Reg 7(2)(e)). The accompanying 2016 guidance states:

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.

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.

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.

Since the guidance was issued, climate risk has increasingly come to the fore as a significant long-term risk with shorter-term implications which has been recognised by this Committee and additional steps have been taken to align the Fund's strategy to the Paris goals, within the broad parameters set by the statutory guidance. The Department for Work and Pensions is presently consulting on policy proposals to require trustees of larger private sector occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures. Although there is no certainty that equivalent proposals will be mandated for LGPS funds, it is apparent that this is something that forward-looking funds should assimilate in their investment strategy.

It is proposed that the implementation of these changes is accelerated by MPF to recognise the magnitude and urgency of the challenge.

3.9 The proposals by Aon recommend specific actions to integrate ESG holistically across the Fund. As set out in appendix 2 and discussed at the IMWP, this can be achieved in our fixed income assets with limited disruption but will be more challenging to implement in our equity portfolios. In parallel with this, the Fund will be increasing exposure to infrastructure and other alternative assets with particular attention to investments such as renewable energy that support our investment strategy goals.

The IIGCC has developed a Net Zero Investment Framework which we propose to adopt as a tool to achieve this. https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmdl=3602&masterkey=5f270ef146677

The framework, launched in August 2020 for consultation, provides the first-ever practical blueprint for investors to maximise the contribution they make in tackling climate change and achieving net zero emissions globally by 2050. It aims to provide a comprehensive set of recommended actions, metrics and methodologies, which following finalisation, will seek to enable both asset owners and asset managers to effectively become 'net zero investors'. Its objectives are to support the decarbonisation of the real economy, help minimise the negative impacts of climate change, and seize investment opportunities.

3.10 The Fund's fixed income holdings have performed strongly over the past 10 years as interest rates have declined significantly. Over the past decade, our conventional bond holdings have returned over 6% p.a. and inflation-linked gilts more than 10% p.a. Given that future returns from UK government bonds are anticipated to be negative, particularly in real terms, the Fund will seek to diversify to some extent into alternative credit strategies. Whilst this brings additional credit risk to the fund, such downside risk is more than offset by the re-allocation away from equities. The ambition is for the fixed income mandates to have explicit ESG requirements consistent with the Fund's RI policy.

3.11 The intention is that a similar discipline is followed for the Fund's equity mandates as they are reassessed in the light of Aon's broader proposals.

3.12 As set out in section 3.9, capital will continue to be deployed into private market assets consistent with the RI policy.

4.0 FINANCIAL IMPLICATIONS

4.1 Specialist investment support in developing the investment strategy proposals, climate benchmarks, mandate design and manager selection will need to be procured.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Additional staff resources in the areas of ESG/investment management, and support functions are essential to the successful delivery of this strategy. As set out in section 7 and the appendix, the investment strategy changes may be disruptive and costly to implement but this can be mitigated by appropriate planning, commitment of resources and reporting. It is anticipated that the cost savings identified through expanded internal management will provide a useful counterbalance to the costs involved in implementing the revised investment strategy.

If agreed, the proposals will reinforce the drive to deliver improved performance and cost savings through increased internal management and collaborative working with our pool partners.

7.0 RELEVANT RISKS

7.1 Climate risk is a significant consideration particularly for long-term investors such as the Fund. The Pensions Climate Risk Industry Group have highlighted that all pension schemes are exposed to climate-related risks, whether investment strategies and mandates are active or passive, pooled or segregated, growth or matching, or have long or short time horizons. Recent research by the International Monetary Fund has specifically identified that stock prices do not reflect future climate risk:

"a sudden shift in investors' perception of this future risk could lead to a drop in asset values, generating a ripple effect on investor portfolios and financial institutions' balance sheets".

7.2 The investment strategy changes may be disruptive and costly to implement. This can be mitigated by appropriate planning, commitment of resources and reporting.

7.3 The IIGCC report notes that "a critical challenge for credible alignment by investors is the availability of robust pathways for net zero emissions and investment trajectories broken down by sector and region." The use of pathways based on the science to shape portfolio targets and measure alignment will help to manage this potential issue.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Fund's Investment Beliefs were subject to consultation with a range of stakeholders and approval by Pensions Committee.

9.0 EQUALITY IMPLICATIONS

9.1 No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The recommendation is to align the Fund's asset portfolio with the Paris goals and achieve net zero emissions by 2050.

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APPENDICES

Appendix 1 Medact Liverpool Letter Received/Response from Chair
Appendix 2 Exempt – Investment Strategy Review.

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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PENSIONS COMMITTEE

2 November 2020

REPORT TITLE:	LGPS UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report covers the long-awaited HM Treasury (HMT) response to the consultation on ‘Restricting Exit Payments in the Public Sector’ and the publication of draft regulations, issued on 22 July 2020.

In addition, the report covers the related Ministry of Housing, Communities and Local Government (MHCLG) consultation – ‘Reforming Local Government Exit Pay’, issued on 7 September 2020. This consultation requests feedback and comments on the proposed reforms to Local Government regulations, in order to meet overarching government policy to limit exit payments to a maximum of £95k for public sector employees.

The report also provides an update on a further interim response on proposals set out in the consultation dated 8 May 2019, ‘Changes to Local Valuation Cycle and The Management of Employer Risk’.

Finally, the report raises awareness of the Written Ministerial statement on survivor benefits payable from public service pensions in response to an Employment Tribunal relating to the Teachers’ Pension Scheme. The case concerns the lower survivor benefits paid to a widower of a female scheme member compared to those paid to a same sex survivor

RECOMMENDATION

That Members note the report and the resource implications in administering imminent changes to the regulations.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision-making role.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

HM Treasury Response to £95k public sector exit cap consultation

3.1 HMT has published its response to the consultation issued last year, seeking to cap public sector exit payments at a value of £95,000, along with the draft regulations; 'The Restriction of Public Sector Exit Payments Regulations 2020'.

https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

3.2 The regulations will affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirement. The regulations include a list of employers who will be covered by the cap.

3.3 There are a few key points to highlight in the response as follows:

- The government has decided to no longer proceed with a staged approach. The cap will now apply across all the public sector when implemented to ensure value for money as soon as possible.
- HMT has confirmed that employer funded early access to pensions (strain cost) will be within scope of the exit payment although the cap will not apply to all employers in Funds as it currently stands.
- The government is committed to strong governance and that any exceptions process for the cap not to apply will be fit for purpose and not cause any unnecessary delays.
- Whilst there is no current plans to uprate the £95k cap each year the government has committed to "making decisions on the level of the cap with reference to full contextual factors" and any change can be implemented through secondary legislation.

3.4 Under current LGPS provisions, members whose employment is terminated on redundancy or efficiency grounds must access their pension benefits. In cases where the cap is breached, then the member may have to take a reduced pension.

Consequently, MHCLG is looking at options to introduce choice to allow members in this position to opt for a deferred pension instead.

3.5 GAD has produced draft factors and strain cost guidance for administrators to calculate the pension strain for retirements on both redundancy and efficiency grounds so that the cap can be applied equally to members across the LGPS.

The government are expecting employment contracts, compensation schemes, and pension schemes to be changed to accommodate the £95k exit cap.

3.6 The Restriction of Public Sector Exit Payment Regulations 2020 were agreed in the House of Commons on 30 September. The Statutory Instrument is now expected to be signed imminently with regulations then coming into force 21 days later.

3.7 The LGA is seeking urgent clarification from Government as to:

- the position for exits agreed before the legislation takes effect, but where the date of leaving is after the regulations come into force
- the position if the HM Treasury regulations come into effect before MHCLG can introduce the necessary changes to the LGPS regulations.

We expect more details to emerge shortly with regard to updated guidance and HMT Directions to implement the new exit payment regulations,

MHCLG CONSULTATION – Reforming Local Government Exit Pay

3.8 On 7 September MHCLG released the above-named consultation which will have far-reaching implications for employers and members employed by public sector bodies within the LGPS. The consultation can be accessed from the following link:

https://www.gov.uk/government/consultations/reforming-local-government-exit-pay

3.9 The reforms apply to all employers set out in the overarching HMT Regulations who are designated as public sector and are the responsibility of the UK government. The reforms will not affect employees of employers outside of the public sector. The proposals will radically change severance packages and impact workforce planning as the provisions go much further than the overarching public sector exit regulations and affect all members regardless of the £95k exit payment cap.

Summary of Proposals

3.10 The consultation sets out the following proposed approach:

- A general reform of redundancy payments, to involve a maximum of three week's pay per year of service, an overall ceiling of 15 months' pay and a maximum salary of £80,000 p.a. which can be used in the calculation.
- Inclusion of pension strain in the overall payment cap of £95k

- A waiver process to allow for relaxation of the £95,000 cap in exceptional circumstances, requiring ratification of full council and approval of the business case by MHCLG
- Strain costs and the related pension enhancements will be reduced by the value of any statutory redundancy payments which the employee will receive in cash.
- In general, the making of discretionary redundancy payments over the statutory redundancy payment will not be allowed in cases where a strain cost is paid.

Impact on Members

3.11 Within the proposals there are a number of options of how members can access the redundancy packages which in the main lead to significantly reduced payments and complexity for a member.

Impact on Funds and Employers

3.12 The issues for Funds and employers are wide ranging, as the proposals will affect governance arrangements, retirement processes, information flows calculations and communications with both employees and employers. The practicalities of implementation are extremely onerous from the Fund's perspective.

3.13 The consultation is open until 9 November and the Fund will respond from a LGPS perspective. The Fund has communicated the need for employers to respond to the consultation in regard the impact on severance packages and future workforce planning.

Interim Consultation Response - Changes to the Local Valuation Cycle & the Management of Employer Risk

3.14 MHCLG has published a further interim response to the above consultation and issued amendment regulations effective from 23 September.

These grant administering authorities and employers the flexibilities to review employer contributions under the following scenarios:

- Where there has been a significant change to the liabilities of an employer (this is more structural changes as opposed to changes in discount rate).
- Where there has been a significant change in the employer's covenant (it is not clear if this would be on the basis of affordability, long term financial strength or both).
- At the request of the employer (who would need to pay the costs) and subject to the two conditions above.

3.15 The trigger to amend contributions is therefore not related to changes in market conditions. Whilst a review of contributions may take place for an employer, it does not mean that contributions would subsequently be changed by the Fund, as all factors will be considered during the review.

3.16 The amendment regulations also permit the administering authority to agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to spread the payment.

3.17 There is also provision to enter into Deferred Debt Agreements with an employer to enable them to continue paying deficit contributions without any active members; but only where the Fund is confident that the employer would fully meet its obligations.

3.18 We are waiting for statutory guidance from MHCLG for the Funding Strategy Statement (FSS) which is expected to be high-level just covering the Regulations and further guidance from the SAB, which will contain more examples of how the regulations will work in practice. The Fund will have to develop a policy on these matters which will be consulted on with employers and incorporated into a future ratified FSS.

SURVIVOR BENEFITS FOR OPPOSITE SEX WIDOWERS PENSIONS

3.19 On 20 July, HMT issued a statement confirming that, following a successful case against the Teachers' Pension Scheme (TPS), known as the "Godwin Case", historical widowers' pensions in the public sector pension schemes discriminated against male members.

https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-07-20/HCWS397/

Departments responsible for the administration of affected schemes will consult on and take forward changes as soon as possible.

3.20 For the LGPS, this will affect surviving widowers where their deceased spouse left prior to April 1998. In some cases, this will lead to an increase in the widowers' pension in payment. In other cases (where the member left prior to April 1988) this will lead to a new widower record needing to be set-up, as previously there was no widowers pension entitlement.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The local government exit pay reforms and options available to employees will need to be carefully communicated as members of the LGPS are likely to seek guidance around their various retirement options with an impact on the administration team's resources. In many cases there will be tension between the accessibility of the up-front redundancy cash and the longer-term pension enhancement.

6.2 Employers will need to be categorised into those affected by the £95,000 exit payment cap and those unaffected and severance policies updated.

6.3 The need to re-visit hundreds, perhaps thousands of historical deferred and pensioner records in relation to the restatement of survivor pension entitlements will only add to the governance and administration burden Funds are facing on the back of the proposed McCloud remedy (covered as a separate agenda item) and the implementation of the exit cap.

6.4 The Fund's actuary, Mercer, has undertaken analysis as to the materiality of the change in widowers' benefits and has concluded that the cost is on average less than 0.1% of liabilities with a value of circa £9m.

7.0 RELEVANT RISKS

7.1 There are none arising from this report.

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in this report.

9.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

9.2 MHCLG and HMT 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 from this report.

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APPENDICES

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

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

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WIRRAL

PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	**PROPOSED MCCLOUD JUDGMENT REMEDY AND LGPS CONSULTATION**
REPORT OF:	**HEAD OF PENSION ADMINISTRATION**

REPORT SUMMARY

On 16 July, the Ministry of Housing, Communities and Local Government (MHCLG) released the much-anticipated consultation on the McCloud remedy for the LGPS in England and Wales, a 12-week consultation covering extensive detail on how the remedy will be applied.

The Fund response to the consultation was shared with the Chairs of Pension Committee and the Local Pension Board, for comment and approval prior to submission on 8 October.

The submitted response is attached as Appendix A and focuses on the operational aspects and communicative challenges in implementing the proposed remedy.

Separately, the Government has announced that the Treasury will restart the 'Employer Cost Cap' assessment for all public sector schemes and critically that the McCloud remedy is to be included in the assessment of the impact on member benefits.

A contribution rate assessment for the McCloud remedy was calculated at the 2019 valuation for Fund employers and the calculations were generally done in line with the proposed underpin in the consultation. Some employers made a provision in their contribution rates and we would not expect to revisit this allowance until the next valuation. For other employers, the Funding Strategy Statement allows us to revisit this where appropriate once the remedy is finalised.

RECOMMENDATION

Once the outcome of the consultation is finalised, the implementation of the final remedy will be required under legislation and informed by statutory guidance, it is therefore recommended that

Pension Committee instruct officers to develop a project plan and any associated workstreams to comply with the scale of retrospective benefit calculations in compliance with The Local Government Pension Scheme (Amendment) Regulations 2020.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 The implementation of the final remedy will be required under legislation and guidance once the outcome of the consultation is finalised. A project plan will inform the costs and resourcing requirements associated with the implementation of the remedy.

2.0 OTHER OPTIONS CONSIDERED

2.1 The consultation is an assessment of options.

3.0 BACKGROUND INFORMATION

3.1 On 16 July MHCLG released the much-anticipated consultation on the McCloud remedy for the LGPS in England and Wales, accessible at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf

3.2 In addition, the Government announced that the 2016 Cost Cap HMT assessment for all public sector schemes will be “unpaused” and critically that the McCloud remedy is to be included in the assessment of the impact on member benefits; the announcement is accessible at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901141/Update_on_the_Cost_Control_Element_of_the_2016_Valuations.pdf

The Scheme Advisory Board will need to consider the implications of this in relation to their separate assessment of the LGPS cost cap and its interaction with the HMT assessment. This could mean that the overall cost of McCloud will be offset in part or entirely when the outcome of the 2016 Cost Cap assessment is known.

3.3 The key feature of the proposed remedy was broadly as expected in that the final salary scheme underpin is to be extended to a wider group of members for service up to 31 March 2022.

However, there are a small number of areas of detail, which were unexpected, and the Fund will need to carefully consider the practical and financial impacts of this. A key change in the underpin means that the Fund will need to revisit all eligible members since 1 April 2014 including members who no longer have a benefit entitlement e.g. deaths or transfers out.

. 3.4 The proposed remedy brings significant Governance, Data (collection and verification), Communication and Training challenges for the Fund. Whilst we have or expect some centrally produced materials and templates it will take careful planning and resourcing to ensure that the implementation is as smooth as possible.

3.5 The number of “in scope” members since 1 April 2014, based on the consultation proposals for the Fund is 34,255 which is a significant undertaking in terms of implementation so will entail careful project and resource management including the potential recruitment of additional staff. It will also have an effect on resources and costs for employers.

3.6 A contribution rate assessment for the McCloud remedy was calculated at the 2019 valuation for the Fund employers and the calculations were generally done in line with the proposed underpin in the consultation. Some employers made a provision in their contribution rates and we would not expect to revisit this allowance until the next valuation. For other employers, the Funding Strategy Statement allows us to revisit this where appropriate once the remedy is finalised. Consideration will also be needed to whether employers will be requested to adjust contributions once the outcome of the consultation is known.

3.7 A brief background to the McCloud judgment is as follows:

- Public Sector Schemes introduced major changes to their scheme designs in 2014 (LGPS) and 2015 (other Public Sector Schemes) namely:
    - Career average instead of final salary from 1 April 2014
    - Increase in normal retirement age (NRA) to State Pension Age
- Transitional protection / underpin for active members who were 10 years away from previous NRA (generally age 65) as at 01/04/2012.
- The protection compares the benefits payable under the current rules with the benefits that would have been paid if the Scheme had not changed in 2014, with the higher amount paid.
- This protection was challenged in the Judicial and Firefighter’s pension schemes as being age discriminatory and became known as the McCloud case; named after Victoria McCloud who brought the first legal challenge.

3.8 In December 2018, the Court of Appeal issued a judgment that the protections were age discriminatory and a process commenced culminating in MHCLG releasing the much-anticipated consultation on the McCloud remedy on 16 July 2020. The consultation ran for 12 weeks and provides extensive detail on how the remedy will be applied.

3.9 It is acknowledged in the consultation document that the proposals will place a huge burden on Funds in relation to data collection, administration, governance, member, and employer communications. In addition, there will be an upfront training and education requirement to ensure all stakeholders have the required knowledge to understand the implications.

Key Features of the Proposed Remedy

3.10 The consultation itself was extremely detailed and included draft Regulations which will be retrospective to 1 April 2014. The level of detail suggests to us that very careful consideration has been given to ensuring as far as possible there are no remaining elements of potential age discrimination.

Given that, we would expect the majority, if not all, the changes proposed to be taken forward, the critical aspects to consider are the practical application of the proposals – in particular, where the required data is unavailable and the communication of the retrospective proposals.

3.11 A summary of the remedy proposals are:

- The eligibility conditions for the final salary underpin will now exclude the age criterion but are still applied to members of the scheme at 31 March 2012 only.
- The underpin will, however, cease to apply for all members in respect of pensionable service from 1 April 2022.
- The underpin will now also apply to members leaving but not immediately drawing benefits, whereas it previously applied only on the sooner of retirement or reaching Normal Pension Age.
- Members benefits are not changed for the impact of the underpin until retirement ("the underpin crystallisation date"), but members need to be informed of the position should they leave pensionable service before retirement. In this situation, the underpin will then need to be re-tested at the point of retirement to allow for the impact of any early/late retirement factors that may be applied.
- There are differences in how the new underpin will operate (including as above) and the new approach will apply to all eligible members and retrospectively in replacement of the previous age-related underpin – even for those members previously covered by the underpin.
- The underpin will apply only where benefits are aggregated. As this could mean a loss of underpin for some existing members, there will be a 12-month election window where members can opt to retrospectively aggregate benefits thereby retaining the underpin across all service.
- Any increase in benefit due to the underpin will count for Annual Allowance purposes only in the year of the underpin crystallisation date.
- The underpin will have to be revisited for members who have died or transferred out since 2014 which will add complexity to the implementation.

- MHCLG estimate the cost to LGPS employers of their proposals will be £2.5bn over the coming decades, as protected members retire and begin to receive their benefits. The Fund Actuary assessed the cost on the Fund at the 2019 valuation. Allowing for the underpin to cease at 2022 the total estimate is an increase in liabilities of £90m across the Fund which will be funded through increase contributions over the coming years (all other things equal). The impact varies depending on the membership profile of each employer and also crucially, it will depend on the actual pay progression of the in-scope members in the future. The lower the pay growth the lower the cost and vice versa.

3.12 Whilst limiting the underpin to service up to 2022 is welcome in terms of limiting the application of the underpin, the change in the existing underpin and its retrospective application add complexity and cost in a number of areas.

The **collection** and **validation** of the historic data from employers will be critical to implementing the final remedy. The Fund has continued to collect some of the key data items from employers since 1 April 2014 but will need to work with employers to verify this data and consider what is outstanding, not available or very difficult to obtain e.g. historic service breaks or changes in hours. An initial consideration of this data exercise will assist in the Fund response to some of the questions posed in the consultation around the difficulty of data gathering and the anticipated timescales to implementing the remedy.

<u>Consultation Response</u>

3.13 The Fund's response supports the fundamental principle of the proposals to remove the age criteria within the LGPS regulations and to extend the statutory underpin protection to younger scheme members (where they meet all other membership criteria).

3.14 The key focus of the response, is in regard the operational practicalities and communicative challenges in implementing the remedy; primarily that the proposal to publish a 'provisional underpin amount on member communications will generate considerable confusion and queries from members.

3.15 As a Fund we are adamant that the proposal to include a' provisional underpin amount' on member correspondence as a quantified amount of monies, should be amended to require the provision of a narrative to confirm qualification for Statutory Underpin Protection which will subsequently be assessed upon receipt of the pension benefit.

3.16 The Fund is cognisant of the significant administrative costs these proposals are putting on both the Fund and employers, including the additional resource implications and strongly advocates the need for regularly updated national guidance and template communications.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none directly arising from this report but are implicit in the resource implications detailed in section 6.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The planning and implementation of the final remedy will require additional resource for the Fund administration team or alternatively, external assistance may need to be sourced for a temporary period. In addition, software providers will need to develop automated approaches to loading the required data and also performing the calculations, which will incur further costs for the Fund.

6.2 To assist in the mitigation of cost and commonality of application of the remedy across the LGPS, the Scheme Advisory Board and LGA are developing templates for data collection from employers and national communication materials. The Fund will use these as much as possible to assist in the project.

6.3 There are also consequences for Fund employers, which should not be underestimated. Employers will need to provide the required data going forward as well as assist the Fund with any missing or incorrect historic data. This will place a burden (and likely cost) on the employers, which will vary depending on the availability of the required data and the quality of the data (including that collected already).

6.4 Employers are likely to need training in this area to cover the requirements of the Fund and their legal duty once the outcome of the consultation is known. However, this process has now started in keeping employers informed on the consequences of the remedy.

7.0 RELEVANT RISKS

7.1 It is imperative that the Administering Authority considers the implementation project for the remedy, ensuring compliance with the regulations and statutory guidance. This project has significant consequences for the administration of the Fund, requiring additional resource and consequently it will incur further operational costs over the coming months and years.

7.2 It is also critical that the Administering Authority engages with employers that did not make an allowance in their contribution rates at the 2019 valuation; specifically, as to how the additional costs of the remedy are to be funded.

This will need to be considered once the consultation outcome is known but employers need to be made aware of this at an early stage.

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in this report.

9.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

The remedy itself is to address age inequality for members and the Fund will comment on this as part of the response to the consultation.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising from this report.

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APPENDICES

Response to MHCLG consultation.

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Merseyside
PENSION FUND

Local Government Finance Stewardship
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Direct Line: 0151 242 1390

Please ask for: Yvonne Murphy

Date: 8 October 2020

c/o **LGPensions@communities.gov.uk**

Dear Sirs

**LOCAL GOVERNMENT PENSION SCHEME:
AMENDMENTS TO THE STATUTORY UNDERPIN**

I refer to the above-mentioned consultation and I am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority for Merseyside Pension Fund.

The Fund is part of the Local Government Pension Scheme (LGPS) and the 4th largest of the 87 funds in England and Wales, with assets of £9bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 200 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 139,000 active, deferred and pensioner members.

Please find attached as Annexe A, our detailed response to the 29 questions posed within the consultation.

The Fund has completed preliminary investigations on the membership and has concluded that 34 000 cases are likely to be in scope for this exercise, and this represents circa 24% of the entire Fund membership.

In finalising this response, Fund Officers have consulted with various parties connected with the Fund, including employee and employer representatives via the Local Pension Board and the Pension Fund Committee. The Fund officers have also consulted with its professional advisors

Our Response in Summary

In general, the Fund has responded positively to the questions, providing feedback on administration difficulties and challenges, whilst recognising the need to amend the statutory underpin in light of the Government requirement to remove age requirements from the current underpin qualification criteria.

However, as you will read within our detailed response, it is our Fund's view that the communication requirements to members are not only administratively burdensome but will also create considerable confusion amongst the membership of the LGPS. Indeed, the proposed requirement to publish a 'provisional underpin amount' on members' annual benefit statements is incongruous to the concept of providing 'guaranteed benefits' within the LGPS and will only generate confusion, administrative queries, and future complaints from members.

As a Fund we are adamant that the proposals for communication to members should be amended to require the provision of a narrative to members on their qualification of Statutory Underpin Protection that will be assessed at the crystallisation date, rather than a quantified amount of monies that may be subject to change in the future.

The Fund is cognisant of the significant administrative costs these proposals are putting on both the fund and employers, including the resource costs to implement the proposals, and strongly advocates the need for clear and regularly updated national guidance and template communications

Finally, I would like to offer the Fund's support to the extensive Scheme Advisory Board response to this consultation, particularly in regard to necessary amendments to the draft regulations.

Yours faithfully

Y Murphy

Yvonne Murphy
Head of Pensions Administration

Enc: Annexe A – Merseyside Pension Fund Detailed Response

ANNEXE A

MERSEYSIDE PENSION FUND
AMENDMENTS TO THE STATUTORY UNDERPIN – DETAILED RESPONSE

	Question	Response
1	Do you agree with our proposal to remove the discrimination found in the McCloud and Sargent case by extending the underpin to younger scheme members?	Merseyside Pension Fund (MPF) support the proposal to extend the underpin to younger scheme members who were active on 1 April 2012, which is consistent with the Court of Appeal's ruling and chimes with the Independent Public Service Pensions Commission assertion that "Age discrimination legislation means that it is not possible in practice to provide protection from change for members who are already above a certain age".
2	Do you agree that the underpin period should end in March 2022?	This is consistent with the original government commitment that members within 10 years of retirement from 1 April 2012 should be protected and to extend beyond this period would be counterproductive to the rationale for introducing the CARE benefit structure.
3	Do you agree that the regulations should apply retrospectively to 01/04/2014?	As age discrimination began on 1 April 2014, in order to resolve the inequalities that exist between older and younger scheme members the regulations must be applied retrospectively. Clearly, doing so comes at a cost both in administration and the cost of the increase in benefits. With regard to interfund transfers, it appears that revisiting payments from ceding funds is unlikely to result in a material adjustment and could be operated on a 'knock-for-knock' basis, with the only requirement being to ensure the member record contains necessary data items for the underpin period. The administrative burden of revisiting settled cases is a complex and arduous task and as the position will not change for the vast majority of the membership, communicating this position may lead to confusion or challenge as to the value of any correspondence that does not change the status or value of the pension benefit.

4	Do the draft regulations implement the revised underpin which we describe in this paper?	The regulations appear to deliver the policy intent but they will cause a significant and complex administrative burden that administrators and employers will need to meet; this appears disproportionate due to the demographic profile of the LGPS and the low number of members who are likely to gain from the revised underpin protection. There are areas that require further clarification, such as the treatment of Pension Sharing Orders and Scheme Pays offsets. MPF supports the analysis undertaken by SAB which identify provisions that require further consideration or where the policy intent is not delivered.
5	Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?	The draft provisions are wide ranging and appear to eliminate any remaining element of potential age discrimination. However, the additional work required of employers, the onerous impact on LGPS administrators along with the associated costs should be considered regarding the context and timing of any communications. It is likely that a significant number of employers will not be able to provide every item of data required to calculate the underpin across all eligible members. We would therefore strongly suggest and request guidance from MHCLG/SAB be issued as soon as possible to clarify how funds should account for any missing data required to calculate the underpin and whether funds can take a proportionate approach when assessing data gaps and the demographic of the membership base, e.g. low paid part-time workers where the increased CARE accrual will likely outstrip any future earnings growth.
6	Do you have other comments on technical matters related to the draft regulations?	We note that the consultation document assertion that an active member's date of death will be both their underpin date and underpin crystallisation date – this is not steadfast in circumstances where a member dies in service after their 2008 Scheme NPA.
7	Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?	Yes, we agree that the member should not have to be immediately entitled to benefits for underpin protection to apply, as the previous anomaly disadvantaged younger Scheme members and contravenes preservation requirements under the Pension Schemes Act 1993. As the revised underpin will now apply to qualifying members of all ages in more circumstances, with exponential administrative impact, it is crucial that SAB provide standardised wording for inclusion in the deferred benefit and CETV statements to members.

		However, the retrospective nature of the proposals will result in the requirement to revisit all deferred benefit and CETV calculations, which will be a mammoth exercise. Furthermore, considering the time period since 2014 it is unlikely for the majority of the membership that earnings growth will have outstripped CARE accrual and we would question the value of communicating the position at the leaving date, as this will result in confusion and queries from members. It may be more informative to use the Annual Benefit Statement to alert members that they have underpin protection which will be assessed when they access their pension benefits.
8	Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?	We support the rationale that members who joined the scheme post 1 April 2012, are not defined as qualifying members. This is on the assertion that MHCLG have received a robust legal opinion that this cohort of membership cannot claim age discrimination at a future date. The consultation document states that those members who leave a fund without meeting the two-year vesting period would not have underpin protection. Consequently, it is assumed by this Fund that those members who aggregate membership without a disqualifying break in service <u>will</u> qualify for underpin protection, which may impact on any interfund payment made to a future fund. Clarity on this should certainly be included in the forthcoming statutory guidance.
9	Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protections to apply?	We agree that the underpin qualifying criteria should have to apply in a single record along with the concept of 'relevant scheme membership'. This principle accords with other extant provisions with the requirement to aggregate membership to preserve the final salary link. It is important for administrators and scheme members that the solution adopted is both effective and straightforward, as added complexity generates confusion and additional cost.
10	Do you agree with our proposal that certain active and deferred members should have an additional 12-month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?	As there are members with unaggregated periods of service, in the interest of fairness, these members should be given the opportunity to aggregate their records in order to preserve their underpin entitlement. We would welcome a discretion to permit administering authorities to extend the 12-month aggregation window, as there will be competing resource pressures in dealing with other overriding legislation and LGPS pension reform. It is also imperative that national communication materials are provided by SAB, to ensure a clear and consistent approach across the LGPS.

		In addition, it should be noted that this proposal will be both onerous and problematic for funds to ensure that only qualifying members are included in the extended window to aggregate membership. Furthermore, an unintended consequence of extending the aggregation window may result in a significant change to the shape of a small employers' liabilities relative to the impact on the member's pension benefits.
11	Do you consider that the proposals outlined in paragraph 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pension Act 2103?	There may be rare occasions where a member could argue that they have suffered an adverse effect from introducing the requirement to aggregate membership in order to retain status as a qualifying member. The provision of a 12 -month aggregation window prior to retirement may leave the member monetarily disadvantaged if the final pay increases are in excess of CARE accruals. Clarification is welcomed that the aggregation window should not be opened to members who opted out after 11 April 2015 and subsequently re-joined the Scheme.
12	Do you have any comments on the proposed amendments described in paragraphs 56 to 59?	The measures described appear to be consistent in ensuring a greater level of equality in application and appear consistent with the government's stated policy in providing protection for members and their survivors. The use of early /late retirement factors are a welcomed addition and reflect the value of the final salary and CARE benefits. The level of administrative activity and costs in resourcing the proposals should not be underestimated, along with the complexity of communicating the change in the underpin calculations where a protected member leaves active service, returns without a qualifying break and elects to aggregate the two membership periods.
13	Do you agree with the two-stage underpin process proposed?	We agree with the principle of the two stage process, acknowledging the necessity for the underpin comparison at the crystallisation date to reflect the different normal retirement ages in the two schemes with any underpin addition included in the final pension benefit. However, we **strongly challenge** the requirement to communicate a 'provisional guarantee amount', which does not change the pension entitlement at the underpin date. This will confuse members as the value will be subject to recalculation at the underpin crystallisation date and as such the proposed 'provisional guarantee amount' will not inform a member's financial planning.

		In addition, the inclusion of a provisional value on a deferred benefit award is counter to the premise that the LGPS provides guaranteed benefits. It will be of greater value to inform a qualifying member at their underpin date, or as part of the annual benefit statement exercise, that they qualify for statutory underpin protection and that the test will be undertaken at the benefit crystallisation date. This is preferable to communicating a quantified amount at the underpin date or on annual benefit statements. To manage member expectations, communications at the underpin date should highlight that the benefits payable from the CARE scheme are usually in excess of any underpin protection and typically will not result in an increase to their final pension entitlement. The following general points outline concerns in communicating a "provisional guarantee amount" to members: • The requirement to revisit all past deferred benefit calculations and issue revised correspondence to members will be a huge undertaking and resource intensive. This is likely to cause confusion to members especially where the underpin does not bite at the underpin date. • Going forward the wording on deferred benefit statement would have to be clear to prevent confusion to members, as there is already a lot of information provided on both the deferred benefit statement and accompanying letter. • The inclusion in annual benefit statements of a "provisional guarantee amount" which is higher than the actual amount payable when benefits are actually taken, may result in complaints from members to the Administering Authority. Even though such complaints would in reality be unjustified, they will require staff resources to respond to individual members, in the context of their individual circumstances.
14	Do you have any comments regarding the proposed approaches outlined above (point 64 to 102)?	The proposed process for Club Transfers places significant onus on the member as it requires them to make a decision as to how their benefits will be treated in the receiving Scheme. This will be a complex financial decision and one where the correct answer will not be known until retirement. This is likely to increase the anxiety of some members in considering whether they require financial advice, while at the same time creating an even greater requirement on administering authorities to ensure comprehensive member communications.

		The requirement to provide active members who remain in employment after the 2008 NPA with an underpin date calculation is questionable if they do not intend to retire. However, it is acknowledged that there would be a requirement to request the final pay calculation at the 2008 NPA to assess the underpin test when the member terminates employment and the benefits crystallise. It is also unclear whether it is the intent to award the 2008 Scheme NPA provisional guarantee amount to the benefit entitlement at the underpin date. In order to deal with the significant workloads created by the retrospective provisions, it is vital that the timeline to implement the regulations is practicable to enable system providers to deliver automated solutions to minimise manual calculations.
15	Do you consider there to be any notable omissions in our proposals on the change to the underpin?	Pension Sharing Orders have been omitted and confirmation is requested that the revised underpin will not be considered for the Divorce CETV; on the basis that other financial elements of the matrimonial assets will have changed since the court made its original judgement.
16	Do you agree that annual benefit statements should include information about a qualifying member underpin protection?	Yes as detailed in the response to Question 13 it would be more informative if annual benefit statements for active members include consistent narrative to inform members that they qualify for statutory underpin protection and that the test will be undertaken at the benefit crystallisation date, rather than communicating a quantified amount. As annual benefit statements provide illustrative values and do not incorporate any 'look back pay' provisions, the exclusion of a 'provisional underpin amount' should not devalue the use of the statement in a member's financial planning. Indeed, the inclusion of a "provisional underpin amount" could potentially mislead a member in their financial planning by indicating a higher pension than is their actual entitlement at the time they take their benefits.
17	Do you have any comments regarding how the underpin should be presented on annual benefit statements?	As already clearly stated and explained elsewhere in this response, we strongly believe that a provisional underpin value should not be included in annual benefit statements. If a provisional underpin value is included there may be years when the underpin applies and years when it does not which will introduce additional complexity and be challenging to explain to members resulting in disengagement and the potential for fewer members accessing or valuing the information. Confirmation that the member is a qualifying member and that the underpin test will apply at the benefit crystallisation date would assist member understanding that the values provided on the annual benefit statement are the minimum pension amounts payable.

18	Do you have any comments or potential issues identified in paragraph 110?	We agree on balance that it is appropriate to apply the annual allowance test at the underpin crystallisation date. The alternative approach of taking a notional underpin amount into account year-on-year would add further complexity and may cause the member to breach the annual allowance in a tax year with the potential that the underpin would no longer apply at the underpin crystallisation date. It would be welcomed if a mitigation could be applied akin to that proposed in the unfunded schemes or an adjustment to reflect membership accruals backdated to 2014.
19	Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?	Whilst the mechanics of the proposals do appear to address the McCloud and Sargeant cases, the potential for any future claims of discrimination from members who joined the Scheme after 31 March 2012 is of concern. We would seek clear assurance that Government has taken comprehensive legal advice. Any future challenge would mean Funds and employers would need to unravel the remedy which would be complex and costly.
20	Do you agree with our equalities impact assessment?	We appreciate that MHCLG and its advisors have carried out a lot of work on the equalities impact, likelihoods of outcomes and other related aspects. We are not in a position to comment any further in this area.
21	Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?	The Fund Actuary believes the cost in the GAD assessment is likely to overstate the overall cost of the remedy due to the salary increase assumption used which seems high in the current economic environment for LGPS members. It also may therefore overstate the impact on the different cohorts.
22	Are there other comments or observations on equalities impacts you would wish to make?	No further comment
23	What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper	We think that standard and consistent communications across all LGPS funds will help employers and members understand the proposals. The Scheme Advisory Board should lead on the communication materials that should be used by LGPS funds. These should be kept up-to-date across various media and can be personalised and adapted for accessibility at a Fund level. It would be very helpful if an ongoing communications development plan was issued so it is known what is being 'worked on' and 'by when', so funds can focus their resources in the areas not being developed centrally.

		Our view is that the following approaches are most appropriate for the two groups: • **Members** – we suggest that central example communications include, at a minimum, all scenarios that LGPS funds should be communicating with members. These should be straightforward and understandable. • **Employers** – the proposals will have a major impact on employers, so it would be helpful if appropriate materials for employer use are developed and shared nationally. We would advocate for the continuation of the SAB's McCloud implementation groups throughout the process as there will be emergent challenges, issues and clarifications sought by Funds and other stakeholders.
24	Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?	While the underpin will not actually take effect for most members, the requirement to obtain the data items from employers will be resource intensive and problematic; particularly where employers cannot provide the required data. The requirement to retrospectively apply the underpin to members who have already retired, or left employment, is a significant challenge due to both the scale and complexity of the casework and the communication exercise. As such it would be helpful for MHCLG to provide direction, in the form of Statutory Guidance, in relation to reasonable timescales for the various stages of the project including: • requiring employers to provide data as soon as is reasonably practical and no later than a defined date. It should be noted that a deadline of or around 31st March is not helpful due to year end pressures for both employers and pension funds. • provision of updated software from the software suppliers. • expected final dates for all funds to have reviewed and rectified benefits back to 2014 (deferred, pensioners, transfers out, deaths etc). Clear national and formal direction will ensure funds, employers and software providers can ensure appropriate resources.

25	What principles should be adopted in determining how to prioritise cases?	Whilst we welcome general guidance on priorities, individual LGPS funds must be able to determine their own priorities based on the expertise, skills and capacity of each LGPS fund administration team, as progress is made throughout the implementation of the remedy. Our initial view of priority groups for the rectification of benefits are as below, but this should be kept under review by the administration team, whilst business-as-usual activity is maintained. • Members closest to the underpin date to avoid recalculation of benefit • Pensioners in payment • Deaths and survivor cases • Transfers • Age 55s and over (especially in light of the recent reforms to exit pay)
26	Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?	Statutory Guidance issued by MHCLG (rather than administrative guidance issues by SAB) clarifying how cases should be dealt with when member data is not available from employers would provide simplification if a practical and reasonable approach is adopted. Nationally defined tolerances that identify minimum thresholds before retrospective changes are made, balancing cost against impact on pension benefits could simplify the proposals and provide efficiencies for administrators.
27	What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?	Clear guidance would be helpful to identify at what point the administrative costs outweigh the benefits of having ‘perfect’ member data records. This should extend to guidance for employers around their service level agreements with third party payroll providers; particularly following the end of contracts. For instance, employer guidance should prompt contract owners to give regard to data retention and accessibility to retained data by new providers. -A key area that would benefit from central guidance is the treatment of any back-payments made to various groups of members e.g. situations where a member and their surviving partner have both died, including clarification over interest payments/calculations.

28	On what matters should there be a consistent approach to implementation of the changes proposed?	**Administrative guidance** We strongly support centralised communications and a consistent administration approach achieved by the provision of national guidance, along with the continuation of the SAB working groups. This guidance and support would include communication templates and actions to take in certain circumstances (e.g. no replies, data absences, retrospective actions for pensioners, aggregation decisions). **Auditor guidance** It would be helpful for clear guidance to be available for auditors insofar as relates to pension fund accounting. This would be in order to pre-empt many queries and dialogue with auditors across the many thousands of employers within the scheme. This guidance should be created in partnership with CIPFA/SAB and any other interested parties and may need to be ongoing at the various stages of this process (e.g. response to consultation, potential further draft regulations, final regulations).
29	Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?	**Funding the remedy via employer contributions** For our Fund, the estimated impact of the remedy was calculated for all employers and was explicitly included in the 2019 actuarial valuation results for the vast majority of the employers. For those employers who did not make an allowance in their contributions plan, they should now be requested to do so. However, this requirement will be re-considered in light of any affordability constraints due to COVID-19. The allowances calculated at the 2019 valuation closely replicated the proposed remedy in the consultation (other than for some historical cases), so our intention is to only review costs at the next valuation. The impact did vary by employer from small-to-large, with a small number of employers not impacted at all (due to their membership profile). Equally, our Fund's FSS & Termination policies ensure that an estimate of any costs associated with the remedy are included in the exit assessment for an outgoing employer. This means that most funding costs have been incorporated into our funding strategy. However, this extends beyond local taxpayers as it applies to all employers, including universities who receive funding from other sources.

		Our view is that Statutory Guidance on McCloud should specifically require that full estimated McCloud costs are recovered through contribution requirements on both an ongoing basis for any employers who are not currently meeting the funding cost, but also in an employer exit scenario. Statutory Guidance should be clear and explicit to require fund policies and practices to be updated to ensure the final agreed remedy costs are attributed to the relevant employer and those costs are not borne by local taxpayers or any other groups. This may mean Funds may need to revisit policies prior to the next valuation. **Administering the remedy** The administrative burden is a significant one and therefore the costs relating to administration could be significant. These are split into two main areas: implementation and retrospective actions, and business-as-usual. **a) Implementation and retrospective actions** Short-term costs for Funds will be material and this includes system upgrades, additional resources, external advisor support and communication activities. The costs for employers may also be significant in terms of their own resources, including but not limited to their own system changes to extract the data from payroll/HR systems. **b) Business-as-usual** In the longer term, there is likely to be an additional cost although we would expect this to be de-minimis (largely arising out of additional system functionality) given the new processes will be fully embedded. We would not expect this to have a material effect on the employer rates in that case.

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WIRRAL

PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	**RETAIL PRICES INDEX REFORM**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report informs members of the government's consultation on reform of the Retail Prices Index (RPI index) and the Fund's response.

RECOMMENDATION

That Members note the report and the Fund's response to the consultation.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a requirement for Members of Pension Committee to be kept informed of pension fund and market developments.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 The government announced that it was launching a consultation on changes to the RPI index. https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology

3.2 The RPI was formally introduced in 1956, and, as such, is the oldest measure of inflation still published by the ONS. But it has significant shortcomings, including in:

- the index formulae it uses to aggregate some price changes,
- the treatment of housing costs,
- population coverage,
- weights,
- classification, and
- geographic coverage.

Reflecting the problems with its construction, the RPI lost its National Statistic status in 2013. At this time, the Authority judged that the RPI did not comply with the Code of Practice for Statistics (the Code).

This view was based primarily on:

- the finding that the methods used to produce the RPI (notably the use of the Carli index formula) did not meet current international statistical standards, and;

- the decision in 2013 effectively to freeze the methods used to produce the RPI, and only to consider 'routine' changes, was inconsistent with the requirement in the Code to seek to achieve continuous improvement.

One major use of the RPI by government is in its issuance of index-linked gilts which use the RPI to adjust their coupon payments and in the repayment of the principal. There is substantial demand from defined benefit pension funds seeking to match RPI-linked liabilities.

The CPI was introduced in 1997, and has been a National Statistic since the introduction of the Code. The CPI does not suffer from the same shortcomings as the RPI and in 2003, the government set the CPI as the basis for the Bank of England's inflation target.

However, the CPI does not include a measure of owner-occupiers' housing costs, that is, the cost of living in and maintaining one's own home. The ONS introduced the CPIH in 2013 to address this.

Since 2010, the measured rate of RPI annual inflation has been on average one percentage point per annum above the CPIH.

There has been an exchange of letters between the UK Statistics Agency (UKSA) and the Chancellor on RPI. A letter from the UKSA to the Chancellor in March 2019 made two recommendations:

- The publication of RPI should cease or
- The publication of RPI should effectively change to CPIH

The Chancellor rejected the proposal to cease the publication of RPI by the UKSA but, regarding the potential change to the calculation methodology of RPI, February 2025 was set as the earliest date that a change could occur.

A consultation was announced aimed at gathering information about the potential impact of any change, whether the change should be made before 2030 and, if so, when between 2025 and 2030 the change should occur.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the Fund's response, the Fund has substantial investments in assets with RPI linked cash flows and any uncompensated change to the calculation of RPI would have a detrimental effect on the value of those assets resulting in a deterioration in the funding position.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 As set out in the Fund's response, the Fund has substantial investments in assets with RPI linked cash flows for risk management purposes. Any uncompensated change to the calculation of RPI would have a detrimental effect on the value of those assets.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

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APPENDICES

Appendix 1 Response to RPI consultation

BACKGROUND PAPERS

https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

RPI Consultation Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

21 August 2020

Dear Sir/Madam

Response to Consultation on the Reform to Retail Prices Index Methodology

Merseyside Pension Fund is responding to the consultation issued by HM Treasury and the UK Statistics Authority (UKSA) on the UKSA's proposals to "reform" the Retail Prices Index (RPI) methodology. Merseyside Pension Fund is a part of the Local Government Pension Scheme and manages c.£9bn of assets (including more than £700m in index-linked gilts) on behalf of nearly 130,000 individuals and 200 employing bodies.

1 Do you agree that this proposed approach is statistically rigorous?

Whilst recognising that there are perceived statistical issues with RPI, RPI is a widely used reference in financial contracts and, arguably, has a purpose beyond being simply a measure of actual broad inflation.

2 What will be the impact on the interests of holders of 'relevant' index-linked gilts (i.e. 2½% IL 2020, 2½% IL 2024 and 4 1/8% IL 2030) of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?

There will be no impact on holders of gilts maturing prior to 2025; there will be an impact on the 4 1/8% IL 2030 if the proposed change were to be implemented prior to its maturity.

3 What will be the impact on the interests of holders of all other index-linked gilts of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?

There will be a material impact on the holders of index-linked gilts stemming from the proposed change, with the impact becoming more material the earlier that any change is implemented. Insight Investments estimate that if RPI is simply amended to match CPIH, it would result in a wealth transfer of £90bn to £120bn away from holders of index-linked gilts – predominantly UK pension funds and insurers – to the

UK government. Even the proposal to make this change has already had a significant impact on the prices of index-linked gilts.

Since 2010, RPI has increased by an average of 1% more than CPIH per annum, with a high degree of consistency, as noted in point 46 of the consultation. This allows a calculation of the impact on index-linked gilt holders of aligning RPI with CPIH. For example, among its various index-linked gilt holdings, MPF holds £39m of the 1 1/4% IL 2055 issue. If RPI was to be reduced by 1% from 2030, the value of this holding would immediately be reduced by £8m - 21% lower than would otherwise have been the case.

4 What will be the impact on the index-linked gilt market or those dependent on it of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?

As a pension fund with CPI-linked benefits, we have taken measures to hedge some of our inflation liabilities using index-linked gilts. The changes proposed will be materially detrimental to our funding position. As explained in our answer to question 3, we will suffer from a reduction in the value of our index-linked gilt holdings without a commensurate change in the valuation of our liabilities. This will need to be made good either by increased contributions from our employing bodies (at a time when local government finances are under extreme stress) or by taking more investment risk within the pension fund (at a time when the valuations of many risk assets seem to be very full).

5 What other impacts might the proposed changes to address the shortcomings of the RPI have in areas or contracts where the RPI is used?

Changing RPI simply to mirror CPIH (even with a one-year time lag) would have far-reaching consequences throughout the UK economy, with significant transfers of wealth, primarily from pension beneficiaries and asset holders, such as pension schemes and insurers, to the government. As noted by the Institute and Faculty of Actuaries in their response to the House of Lords Economic Affairs Select Committee call for evidence into use of the retail price index , there will be many losers:

- Members of company pension schemes with RPI-linked increases
- Annuitants
- Holders of index-linked gilts
- People who have suffered personal injuries and who are beneficiaries of court awards
- People in receipt of long-term disability insurance

In addition, as a pension fund, we are invested in a number of property and infrastructure assets whose valuations are influenced by the level of inflation as measured by RPI.

Over the last ten years, there has been a move by pension funds to allocate capital to infrastructure, such that it is now an established asset class in its own right. We have made substantial investments into infrastructure not only for the defensive nature of the assets but also for the inflation linked cash flows. A good portion of the infrastructure market is exposed to RPI, whereby the underlying contracts explicitly reference the index. The change in the index will negatively affect the revenue of these assets, ultimately reducing the cash flows to us and reducing our ability to deliver on our obligations to members.

For example, we have committed £250m to GLIL, a long term investor in core, UK infrastructure with committed capital of £1.825bn. GLIL is backed by four Local Authority Pension Funds ("**LAPF**"), namely:

- Greater Manchester Pension Fund;
- Merseyside Pension Fund;
- West Yorkshire Pension Fund; and
- Local Pensions Partnership Investments (the entity which manages the assets of London Pensions Fund Authority, Lancashire County Pension Fund and Royal County of Berkshire Pension Fund).

The pension funds that are invested in GLIL have over 1 million members and in excess of £58bn in assets.

Since being founded in 2015, GLIL has invested over £1.1bn in a number of high-quality equity investments across UK infrastructure:

A large portfolio of PFI/PPP assets, helping fund the schools, hospitals and roads of the UK, these contracts are explicitly linked to RPI, and this change will negatively impact on the cash flows generated by this portfolio.

Equally GLIL owns over [750] MW of renewable energy, helping to fund the decarbonisation agenda of the UK, part of this subsidy regime is linked to RPI. The Renewable Obligation Certificate (ROC) is inflated with RPI annually; this change again will reduce the cash flows we receive.

Based on similar assumptions to those used in question 3, we estimate the cost to us in relation to our investment in GLIL alone could be between £5m and £6m.

6 Are there any other issues relevant to the proposal the Authority is minded to make of which the Authority or the Chancellor ought to be aware?

In common with many respondents, we believe that there should be an independent process to find a fair and equitable outcome that adequately addresses the economic implications of this change.

We share concerns that this consultation is too narrow, in that it exclusively considers (at least in terms of direct impact) the terms of "relevant gilts" (as defined at paragraph 19 of the consultation) and the requirements of section 21(2) of the National Statistics Act (the 'Act'). The "relevant gilts" will mature by 2030 and are a small proportion of the index-linked gilt issuance.

7 Which lower level or supplementary RPI indices are currently used, and what are they used for?

No response

8 What guidance would users of lower level or supplementary RPI indices find most useful for the ONS to provide?

No response

Yours faithfully

P Wallach

Peter Wallach

Director of Pensions

PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	**INVESTMENT PERFORMANCE**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report sets out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2020.

RECOMMENDATION/S

That Members note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's liabilities over the long-term.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

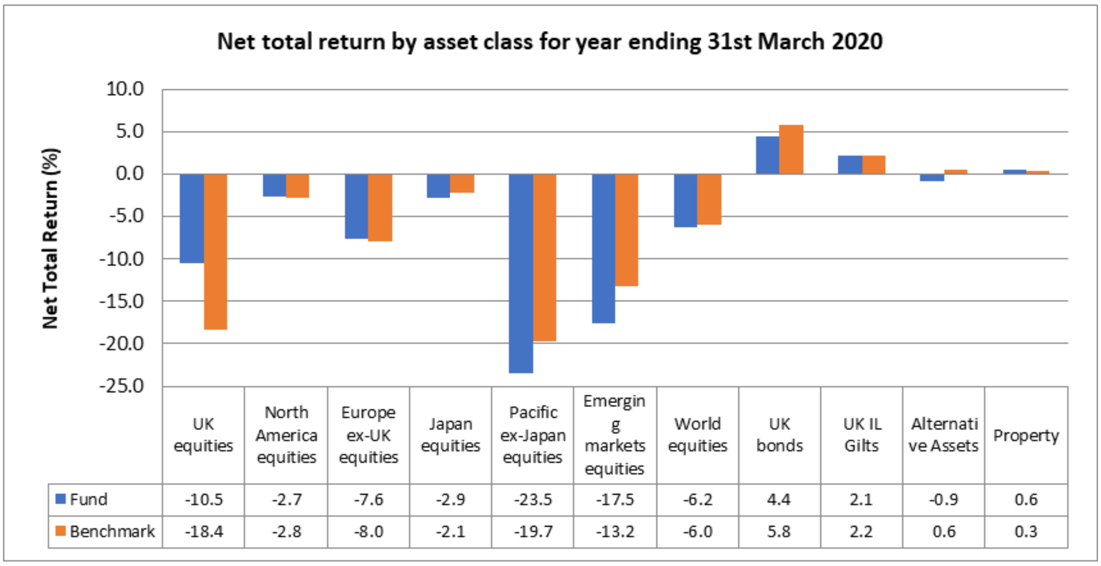
3.0 BACKGROUND INFORMATION

3.1 The Fund returned -2.1 per cent in the financial year to the end of March 2020 compared to its bespoke benchmark return of -5.9 per cent, an outperformance of 3.8 per cent. This was behind the Consumer Price Index and the increase in Average Earnings which advanced by 1.5% and 2.4% respectively. Longer-term numbers are set out in the table below.

Table 1

	1 year	3 year (annualised)	5 year (annualised)	10 year annualised)
MPF	-2.13	2.35	5.68	7.15
Benchmark	-5.87	0.53	3.58	5.52
Relative return	3.98	1.81	2.03	5.14

3.2 The Fund's 1-year investment performance against its benchmarks across all asset classes is illustrated in the chart below.



The global economy experienced a slower pace of growth in 2019 as the introduction of tariffs by the US and the inevitable response from China had a sizable impact on global trade. The bigger hit was taken by China as both their imports and exports fell substantially. So, whilst economic momentum was supported by domestic activity, the rate of expansion for China during the second quarter of the year was at the slowest pace since 1992. Knock on effects of the dispute reverberated through to other regions, particularly those most open to trade, such as Japan, South Korea and Singapore. In Europe, Germany narrowly avoided a recession as their manufacturing sector felt the strain. Fortunately, the demand for services across developed countries, particularly in the US, remained robust, being sustained by high employment levels and real wage growth.

Somewhat perversely, President Trump's trade war with China worked to drive financial markets higher through 2019. The slower global growth was the spur for a significant change in policy from the US Federal Reserve and it was this element that lifted the spirits of equity and bond investors. In early 2018, expectations were set for a continuation of interest rate hikes that would have taken the US Federal Funds rate beyond the 2% – 2.25% range that prevailed at the beginning of the year, but as global growth slowed into the Spring of 2019, the US Federal Reserve hinted towards a looser monetary stance. On 1 August it implemented the first of three 0.25% cuts. To the delight of investors this more accommodative stance was followed by easing measures elsewhere as the European Central Bank acted by cutting its official interest rate into even deeper negative territory and Central Banks across Asia and Latin America made cuts to their key lending rates. For UK markets, investors had to contend with the additional uncertainties brought on by the UK's decision to leave the European Union.

The biggest shock to the markets, however, came during the opening quarter of 2020 when the world's attention moved firmly to the emergence and spread of the Covid-19 pandemic. As infection rates and deaths spread across the globe, governments took drastic action to contain the virus causing economic activity to virtually stall. All of this had a crushing effect on investor risk appetite and global equities, which had reached a new high only on 17 January, fell by over 30% in Sterling terms in the period of a month.

Thankfully, governments and monetary authorities across the globe, responded quickly to the crisis. The US Federal Reserve cut interest rates by 150 bps in March and announced plans to restart asset purchases and support market liquidity. US Congress passed a $2.2 trillion spending bill to help firms and individuals impacted by shutdown measures. In the UK, the Bank of England cut rates from 0.75% to 0.10%. Meanwhile, the Government announced a huge fiscal package, stating that it would pay temporarily laid-off employees up to 80% of their salaries (capped at £2,500 per month). Sterling briefly dropped to a low against the dollar that was last seen in the 1980's.

Given the macro environment it is unsurprising that equity markets across all regions delivered negative returns for the one-year period to the end of March 2020. Japan and North America fared better than other regions as both equity markets have large exposures to technology companies which in some instances are beneficiaries of an economy in lockdown. The other end of the performance table is occupied by UK equities, Asia Pacific equities and Emerging Market Equities, which fell by 18.7%, 19.4% and 13.2% respectively.

These regions have greater exposure to cyclical sectors of the economy where the Covid-19 impact was most acutely felt such as Energy, Commodities, Banking and Airlines.

Bond markets reflected investor preference for defensive assets and UK government bonds (Gilts) provided returns to investors of 9.9% over the period. Corporate bond performance, whilst positive at +1.5%, was not quite so stellar as credit spreads over government bonds widened in Q1 of 2020 and some borrowers, such as Ford, Lufthansa and Heinz had their debt downgraded to below investment grade.

On 15 April 2019, the Fund implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's longer term liabilities.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

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

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Appendix 1
Appendix 2
Appendix 3

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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PENSIONS COMMITTEE

Monday, 2 November 2020

REPORT TITLE:	LOCAL PENSION BOARD MINUTES
REPORT OF:	

REPORT SUMMARY

This report provides members with the minutes of the previous meeting of the Local Pension Board.

RECOMMENDATION

That members note the minutes of the Local Pension Board.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 The 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 Local Pension Board provides 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 none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are no implications arising directly from this report.

7.0 RELEVANT RISKS

7.1 There are none arising from this report.

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 No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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LOCAL PENSIONS BOARD

Monday, 14 September 2020

Present: J Raisin (Chair)

G Broadhead
D Ridland
R Irvine
P Maloney
L Robinson
S Van Arendsen

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

Members were 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.

No such declarations were made.

2 **PAUL WIGGINS**

The Independent Chair paid tribute to Paul Wiggins, Unison retired member representative, who had sadly died in June 2020. He said that Paul had been exemplary in his approach as a member of the Local Pensions Board and as an individual and would be greatly missed. Members of the Board made their own tributes and on the suggestion of the Chair it was agreed that members would pay their respects by holding two minutes silence once the Board was able to meet again in person.

3 **MINUTES**

Resolved – That the accuracy of the minutes of the Local Pension Board held on 5 February 2020 be approved as a correct record.

4 **LOCAL PENSIONS BOARD BRIEFING 8 JUNE 2020**

The Chair noted that a briefing of the Local Pensions Board had been held virtually on 8 June 2020. The meeting had been Chaired by the Director of Pensions and although an informal meeting had been conducted in the same way as a formal Board meeting and took account of the recommendation of the Pension Regulator for the Board to meet regularly to discharge its duties and responsibilities effectively, but not less than four times in any year. The Briefing had also provided a verbal update on how the Pension Fund was operating in the current pandemic situation.

5 **LGPS UPDATE**

Yvonne Murphy, Head of Pension Administration, provided members with an update that covered the long-awaited Government response to the consultation on restricting exit payments in the public sector and the publication of the draft Restriction of Public Sector Exit Payments Regulations 2020 issued on 22 July 2020.

The report also raised awareness of the Written Ministerial statement on survivor benefits payable from public service pensions in response to an Employment Tribunal relating to the Teachers' Pension Scheme. The case concerned the lower survivor benefits paid to a widower of a female scheme member compared to those paid to a same sex survivor or a widow of a male scheme member.

The Head of Pensions Administration provided details of the background and key issues in the report and noted that HMT had published its response to the consultation issued last year, seeking to cap public sector exit payments at a value of £95,000, along with the draft regulations; The Restriction of Public Sector Exit Payments Regulations 2020. This could be found on the following link:

https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

It was noted that the regulations would affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirements and included a list of employers who will be covered by the cap.

The Head of Pension Administration also highlighted the key points in the response and responded to members' questions.

In relation to survivor benefits for opposite sex widowers pensions it was reported that on 20 July, HMT had issued a statement confirming that, following a successful case against the Teachers' Pension Scheme (TPS), known as the "Godwin Case" historical widowers' pensions in the public sector pension schemes discriminated against male members. Details could be viewed on the following link;

https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-07-20/HCWS397/

Members were informed that Departments responsible for the administration of affected schemes would consult on and take forward changes as soon as possible. For the LGPS this would affect surviving widowers where their deceased spouse left prior to April 1998. In some cases, this would lead to an increase in the widower's pension in payment. In other cases (where the member left prior to April 1988) this would lead to a new widower record needing to be set up, as previously there was no widower's pension entitlement.

Members were informed that the need to re-visit hundreds, perhaps thousands of historical deferred and pensioner records in relation to the restatement of survivor pension entitlements would only add to the governance and administration burden Funds were facing on the back of the proposed McCloud remedy and the implementation of the exit cap.

The Head of Pension Administration provided an outline of the impacts and considerations as the government were expecting employment contracts, compensation schemes, and pension schemes to be changed to accommodate the £95k exit cap. More details were expected to emerge about updated guidance and HMT Directions. Both Funds and employers would need to ensure they were making plans to prepare for the implementation as the detail emerges.

The Chair noted that individuals could also respond to the Exit Cap consultation which would close on 9 November 2020 and encouraged them to do so.

Resolved - That the report be noted.

6 **PROPOSED MCCLOUD JUDGMENT REMEDY AND LGPS CONSULTATION**

The Head of Pension Administration provided a report that updated the Board on the much-anticipated consultation on the McCloud remedy for the LGPS in England and Wales, a 12-week consultation covering extensive detail on how the remedy would be applied, that had been released by MHCLG on 16 July 2020. The Fund's officers would be responding to the consultation as part of planning for the implementation of the remedy. Separately the Government had announced that the 2016 Cost Cap HMT assessment for all public sector schemes would be unpaused and critically that the McCloud remedy was to be included in the assessment of the impact on member benefits.

Members were informed that a contribution rate assessment for the McCloud remedy was calculated at the 2019 valuation for Merseyside Fund employers and the calculations were generally done in line with the proposed underpin in the consultation. Some employers made a provision in their contribution rates and the Fund would not expect to revisit this allowance until the next valuation. For other employers, the Funding Strategy Statement allowed this to be revisited where appropriate once the remedy was finalised.

The Head of Pensions Administration provided details on the background and key features of the changes and a summary of the remedy proposals set out in the report. Members questions on the impact of the remedy were responded to and the Board was informed that the Fund would be preparing a response to the consultation by the closing date of 8 Oct 2020.

Resolved –That the Pension Board affirm its support for the approach proposed by officers to develop the project plan for implementation and for use as a basis for responding to the consultation.

7 INVESTMENT PERFORMANCE 2019-20

The Director of Pensions presented a report that set out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2020.

The report set out investment performance and provided a commentary on the markets, the impact of the Covid-19 pandemic and the response of governments and monetary authorities across the globe. It was reported that on 15 April 2019, the Fund had implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark.

Members commented that the performance of the Fund's investment strategy was a lot better than might be expected and commended the Fund's Investment Team.

Resolved – That the report be noted.

8 RPI CONSULTATION RESPONSE

A report of the Director of Pensions informed members of the government's consultation on reform of the Retail Prices Index (RPI index) and the Fund's response was attached as an appendix to the report.

Members were informed that the government had announced that it was launching a consultation on changes to the RPI index. The consultation could be viewed on the following link:

https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology

The report provided the background to the introduction of the RPI, the CPI and CPIH and noted that since 2010, the measured rate of RPI annual inflation had been on average one percentage point per annum above the CPIH.

There has been an exchange of letters between the UK Statistics Agency (UKSA) and the Chancellor on RPI. A letter from the UKSA to the Chancellor in March 2019 had made two recommendations:

- The publication of RPI should cease or
- The publication of RPI should effectively change to CPIH

The Chancellor had rejected the proposal to cease the publication of RPI by the UKSA but, regarding the potential change to the calculation methodology of RPI, February 2025 had been set as the earliest date that a change could occur.
A consultation had been announced aimed at gathering information about the potential impact of any change, whether the change should be made before 2030 and, if so, when between 2025 and 2030 the change should occur.

Members were informed that, as set out in the Fund's response, the Fund had substantial investments in assets with RPI linked cash flows and any uncompensated change to the calculation of RPI would have a detrimental effect on the value of those assets.

Resolved – That the report and the Fund's response to the consultation be noted.

9 **REVISED TERMS OF REFERENCE**

The Head of Pensions Administration presented the revised Terms of Reference for the Local Pension Board which were attached as an appendix to the report.

The report informed the Pension Board of proposed revisions to its Terms of Reference (ToR) following the recent statement from the Scheme Advisory Board (SAB) on the position of local pension board meetings during the COVID-19 emergency. SAB had sought legal advice and now recommended that the ToR should be amended to provide for virtual meetings where it was not possible or practical for Boards to meet in person.

It was reported that the Pension Board had operated effectively since July 2015 with the last revisions to the ToR's approved by full Council for adoption into the Council's constitution on 9 December 2019. The report highlighted that during the current pandemic and national emergency measures it was essential that the Pension Board find ways of exercising their statutory functions and it was clear that arranging virtual meetings satisfied the requirement of Regulation 106 (8) of the LGPS Regs 2013, which permitted the Board to undertake actions to facilitate the discharge of its functions.

In consideration of SAB's directive and the changing operating environment of statutory and regulatory committees, section two of the ToR had been expanded to include paragraph 2.4 & 2.5 which permitted virtual meetings using video and telephone conferencing technology and define the terms of attendance. A new section 5, Virtual meetings, had also been drafted which set outs the operational practicalities, etiquette, voting procedure and troubleshooting in the event of failure of the remote participation facility.

Resolved – That;

1. **the draft ToR, having been reviewed by the Pension Board and subject to the removal of paragraph 5.1 relating to the length of meetings, be approved to ensure it continues to exercise its statutory function in circumstances where a virtual event is necessary due to emergency measures imposed by national or local government departments.**

2. **virtual or hybrid meetings of the Local Pension Board take place only with the approval of the Director of Pensions in consultation with the Independent Chair.**

10 **WORKING PARTY MINUTES**

Members gave consideration to a report that provided Board members with copies of working party minutes since the previous Pension Board meeting.

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

Resolved – That the report be noted.

11 **BUSINESS PLAN**

Members gave consideration to a report that provided Board members with a copy of the Fund's Business Plan.

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

Resolved – That the report be noted.

12 RISK REGISTER

Members gave consideration to a report that provided Board members with a copy of the Fund's Risk Register

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

Resolved – That the report be noted.

13 EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

Resolved – That in accordance with section 100 (A) 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 it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

14 INTERNAL AUDIT ANNUAL REVIEW 2019/20

Mark Niblock, Chief Internal Auditor, attended the meeting and presented the Internal Audit Annual Review 2019/20. It was reported that on the basis of the work undertaken during the year, the Internal Audit Service was able to provide significant assurance on the adequacy and effectiveness of the MPF internal control environment. This conclusion would feed into the Chief Internal Auditor's Annual Report for 2019/20 and Opinion on the System of Internal Control for Wirral Council, to be presented to the Audit & Risk Management Committee in November 2020.

Resolved – That the report be noted.

15 DRAFT PENSION BOARD ANNUAL REPORT

Members gave consideration to a report which had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the work and performance of the Board and its Members during its fifth year (1 April 2019 to 31 March 2020). The report also included a proposed Work Plan for 2020-21.

The report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information

relating to the financial or business affairs of any person, including the authority holding that information.
Under Section 11.3 of its present Terms of Reference (approved by the Wirral Council at its meeting held on 9 December 2019) the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review had been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 14 September 2020. Following consideration by the Board an approved version of this review would be presented by the Independent Chair to the Pensions Committee at its meeting on 2 November 2020.

The Chair noted his appreciation of the positive approach and support that both he and fellow Board members had received from the Director of Pensions and officers during his time as Chair of the Pensions Board and thanked the officers for their positive approach and their reports, guidance and advice. He also referred to the continued high calibre of members of the Board and thanked all members individually. The Chair also acknowledged the positive working relationship both he and Board members had the benefit of with the new Chair and members of the Pensions Committee.

Going forward the Chair noted that two issues in particular would be of critical importance to the LGPS at an individual Fund level across England and Wales. These were the successful implementation of the recommendations of the "Good Governance in the LGPS" project and the implementation of the remedy to the age discrimination (commonly referred to as the "McCloud" case) in the current LGPS benefit arrangements. These would inevitably require additional resourcing even by a Fund such as Merseyside which, based on the reporting to and constructive challenge by this Board since 2015, regularly reviews requirements, risks and consequently resourcing. The Pension Board therefore looked forward to updates as to how these issues were being actively addressed.

Resolved – That;

1 the Pension Board Review 2019-20 be received and approved.

2 the proposed Work Plan 2020-21 be approved.

16 **NATIONAL KNOWLEDGE ASSESSMENT**

The Director of Pensions presented a report on the National Knowledge Assessment's. The key goal of the Assessment had been to provide LGPS funds with an insight to the pensions specific knowledge and understanding of those holding decision making and oversight responsibility within their organisations. The Director of Pensions thanked members of the Board for their participation and noted that the report would be considered at the next meeting of the Pensions Committee and would inform on training needs for the Board and Pensions Committee members.

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

Resolved - That the report be noted and members continue to work with officers to identify and undertake training and development opportunities appropriate to their needs.

17 **BUSINESS PLAN EX APPENDIX**

The appendix to the report on the Business Plan contained exempt information by virtue of paragraph(s) 3.

18 **ADMINISTRATION KPI REPORT**

Members gave consideration to a report of the Head of Pensions Administration that provided Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 April 2020 to 30 June 2020.

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

Resolved – That the report be noted.

19 **RISK REGISTER EXEMPT APPENDIX**

Appendix 1 to the report contained exempt information by virtue of paragraph 3.

20 **WORKING PARTY EXEMPT MINUTES**

The appendix to the report contained exempt information by virtue of paragraph 3.

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Agenda Item 15

PENSIONS COMMITTEE

2 November 2020

REPORT TITLE:	**NATIONAL KNOWLEDGE ASSESSMENT**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The National Knowledge Assessment’s key goal is to provide LGPS funds with an insight to the pensions specific knowledge and understanding of those holding decision making and oversight responsibility within their organisations.

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

RECOMMENDATION

That Members note the report and work with officers to identify and undertake training and development opportunities appropriate to their needs.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 Members of the Committee play a vital role in the scheme, and to exercise their roles effectively must be able to address all relevant topics including investment matters, issues concerning funding, pension administration and governance.

2.0 OTHER OPTIONS CONSIDERED

2.1 The Fund assessment could have been commissioned from another organisation but the NKA was LGPS specific and provided benchmarking which would not have been available from could have declined to participate in the assessment. Alternatively, a training needs' other sources.

3.0 BACKGROUND INFORMATION

3.1 In recent years there has been a marked increase in the scrutiny of public service pension schemes, including the 100 regional funds that make up the LGPS across the UK. The Public Service Pensions Act 2013 introduced new governance legislation, including the requirement for Local Pension Boards to be set up and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 141. Additionally, the Ministry of Housing, Communities and Local Government ("MHCLG") in England & Wales and the Scheme Advisory Board have emphasised the need for the highest standards of governance in the LGPS. This includes ensuring that all involved in the governance of public sector funds can evidence they have the knowledge, skills and commitment to carry out their role effectively. The requirement for strong governance has led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance.

3.2 The introduction of Markets In Financial Instruments Directive II (MIFID II) in January 2018 required Committee members to evidence their knowledge in order to be treated as professional investors. Also, in late 2019 the Scheme Advisory Board for England and Wales began a review of governance arrangements for LGPS funds. This project – termed 'Good Governance' – addressed stakeholder knowledge and skills. A clear recommendation of the Good Governance project is that the knowledge levels already statutorily required of Board members should also be required of Committee members. These recent events have reaffirmed that LGPS funds should evidence the training provided and current knowledge and understanding levels retained within their Committee and Board.

3.3 While fund officers may deal with the day-to-day running of the funds, members of the Committee play a vital role in the scheme, and to exercise their roles effectively must be able to address all relevant topics including investment matters, issues concerning funding, pension administration and governance.

3.4 By participating in the assessment, the Fund can demonstrate that it is taking steps to enhance the knowledge and understanding of those involved in governance and the process will assist in the provision of appropriate training and development. A summary of the national findings was issued by Hymans Robertson https://www.hymans.co.uk/media/uploads/LGPS_National_Knowledge_Assessment_Report.pdf

Approach

3.5 Members of the Merseyside Pension Fund Committee and Board were invited to complete an online knowledge assessment. In total there were 6 respondents from the Committee and there were 8 respondents from the Board. Each respondent was given the same set of 47 questions on the 8 areas below:

1	Committee Role and Pensions Legislation	5	Procurement and Relationship Management
2	Pensions Governance	6	Investment Performance and Risk Management
3	Pensions Administration	7	Financial Markets and Product Knowledge
4	Pensions Accounting and Audit Standards	8	Actuarial Methods, Standards and Practices

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct.

3.6 The results are shown in the appendix to this report.

4.0 FINANCIAL IMPLICATIONS

4.1 The cost of the assessment was £5,000.

5.0 LEGAL IMPLICATIONS

5.1 None at this stage.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Following receipt of the assessment report and an analysis of training needs, suitable training opportunities will be identified and offered to members.

7.0 RELEVANT RISKS

7.1 As set out in section 2, there is an increasing focus on the governance of public sector pension funds and Committees and Boards must be able to demonstrate that they are able to exercise their roles effectively. It is essential that the necessary support to assist members' training and development is available.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 MHCLG undertake equality impact assessments with regard to the statutory reform of the LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The content and/or recommendations contained within this report are expected to:

Have no impact on emissions of Greenhouse Gases

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APPENDICES

Appendix 1 National Knowledge Assessment

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

PENSIONS COMMITTEE

Monday, 2 November 2020

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

REPORT SUMMARY

This report provides Members with an update on pooling arrangements in respect of MPF and the Northern LGPS. Minutes of the previous two Joint Committee meetings are appended for noting.

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

RECOMMENDATION/S

That Members note the minutes of the Joint Committee meetings.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Pooling is resulting in fundamental changes to the oversight and management of LGPS assets and it is important that Members are informed of all developments affecting the Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 Minutes of the two previous Northern LGPS Joint Committee meetings are attached at exempt appendix 1.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

8.1 There are none arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

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APPENDICES

Minutes of Joint Committee meetings.

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL

PENSIONS COMMITTEE

Monday, 2 November 2020

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 last meeting.

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

RECOMMENDATION/S

That Members approve the minutes attached as an appendix to this report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

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

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising from this report.

7.0 RELEVANT RISKS

7.1 There are none arising from this report.

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 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

No equality issues arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising from this report.

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APPENDICES

Appendix 1, 2, 3 & 4 Working Party minutes

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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Agenda Item 19

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Agenda Item 22

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