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WIRRAL

Pensions Committee

Date:	**Tuesday, 22 June 2021**
Time:	**6.00 p.m.**
Venue:	Floral Pavilion, Marine Promenade, New Brighton CH45 2JS

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1. WELCOME AND INTRODUCTION

2. APOLOGIES

3. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

4. MINUTES (Pages 1 - 6)

To approve the accuracy of the minutes of the meeting held on 29 March 2021.

5. AUDIT PLAN (Pages 7 - 26)

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PENSIONS COMMITTEE

Monday, 29 March 2021

Present:	Councillor	P Cleary (Chair)	
	Councillors	C Povall	A Gardner
		C Carubia	T Jones
		G Davies	B Kenny
		S Foulkes	L Rowlands
	Councillor	M Bond, St Helens Council	

43 WELCOME AND INTRODUCTION

The Chair welcomed Members of the Pensions Committee and viewing members of the public to the online, virtual meeting.

44 APOLOGIES

A roll call of Councillors was undertaken on behalf of the Head of Legal Services. No apologies had been received.

45 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

The following declarations were made:

Councillor George Davies	Pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.
Councillor Andrew Gardner	Pecuniary interest by virtue of being a member of Merseyside Pension Fund.
Councillor Tony Jones	Pecuniary interest by virtue of himself and his wife being a member of Merseyside Pension Fund.
Councillor Cherry Povall	Pecuniary interest by virtue of her daughter being a member of Merseyside Pension Fund.
Councillor Les Rowlands	Pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

46 MINUTES

Resolved – That the accuracy of the minutes of the meeting held on 2 February 2021 be agreed.

47 **LGPS UPDATE**

The Head of Pensions Administration, Yvonne Murphy, introduced a report that updated Members on the Treasury announcement of 12 February, to issue a direction to disapply the 'Restriction of Public Sector Exit Payments Regulations 2020 (£95k cap) with immediate effect. Subsequently, on 25 February the Treasury had formally revoked the regulations with effect from 19 March 2021.

In addition, the report raised awareness of the publication of the final report from the Scheme Advisory Board on the Good Governance review and overriding legislation that would impact on the administration of the LGPS.

Further to updates provided at the last committee meeting on the £95k Exit Cap, HM Treasury (HMT) had published the Exit Payment Cap Directions 2021, on 12 February, accessible from the following link:

https://www.gov.uk/government/publications/guidance-on-public-sector-exit-payments/mandatory-hm-treasury-directions

The Directions had disapplied regulations 3, 9 and 12 of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect on the basis that the Government had concluded that the Cap may have had unintended consequences. This meant the exit cap did not apply to exits that took place on or after 12 February 2021.

HMT had also issued guidance which set out their expectation that employers who had capped exit payments since 4 November 2020 should revisit those cases and pay the additional sums that would have been payable had the cap not applied.

The Head of Pension Administration also highlighted that on 11 February, HMT had launched a consultation on the implementation of increasing the minimum pension age from 55 to 57 in April 2028. This was the age at which individuals could access their pension benefits without incurring an unauthorised tax charge.

Government had previously signalled its commitment to increase the minimum pension age to 57 in 2028 in its response to the Freedom and Choice in Pensions consultation in July 2014. The Government's justification was to reflect increases to life expectancy since the minimum pension age was last increased from 50 to 55 in 2010, so that tax efficient pension savings were only used to provide income and security in later life.

The consultation confirmed that the proposals did not apply to those who were members of the firefighters, police and armed forces public service pension schemes. The consultation would close on 22 April 2021 and MPF would provide a response to this consultation which would be shared members of the Pension Committee.

Resolved - That the governance, resource and operational implications emerging from impending changes to the regulations and industry developments be noted.

48 **MPF BUDGET 2021/22**

Donna Smith, Head of Finance & Risk, presented a report that requested that Members approve the budget for the financial year 2021/22.

The budget for 2021/22 was attached as appendix 1 to the report.

The headline figures were that, during the financial year 2021/22, it was estimated that MPF would pay £368m in pensions and receive £172m in contributions from employers and employees. The Fund had a value of £9.8bn at 31 December 2020. The proposed administration costs of £25.5m including £17.4m of investment management charges to external managers represented a cost of £182.44 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs were approximately £124.01 per member or 0.18% of assets under management.

The budget for 2021/22 was higher at £25.5m than £23.0 in 2020/21 primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

The Fund was undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

Resolved – That;

1 the budget for 2021/22 be approved. (Subject to review of charges from the administering authority for support services).

2 a further report on the outturn for 2020/21 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2021/22 be presented to Members of Pensions Committee at a future meeting.

49 **OVERPAYMENT OF PENSIONS POLICY**

The Head of Pension Administration, Yvonne Murphy, presented a report that informed Members of the introduction of an 'Overpayment of Pensions Policy' formalising the operational and decision-making processes in dealing with the overpayment of pensions.

Appendix 1 to the report contained the draft Overpayment of Pensions Policy.

The policy outlined the circumstances where the recovery of monies was pursued, along with the considerations as to the commercial viability of recovery, the reasons for write-off and actions undertaken to mitigate the loss to the taxpayer.

The policy confirmed that the Fund adopted the HM Revenue & Customs (HMRC) statutory "de minimums limit" of £250, which allowed for the non-recovery of a payment up to £250 gross made in error "because of circumstances that were beyond the control of the pension scheme making the payment".

The Pension Board had considered the draft policy and, after making a number of revisions to the document, had deemed the policy (Appendix One) as suitable for presentation to Pensions Committee for its approval; on the basis it was equitable to scheme members, the scheme itself and the taxpayer.

Following discussion with Members it was agreed that paragraph 3.4 be amended to replace the £1000 limit for reporting to reference the minimum approval limit documented in the Wirral Council Constitution.

Resolved – That the draft 'Overpayment of Pensions Policy' which formalises the Fund's current operational practice, including the application of HMRC's statutory £250 "de minimums limit", be approved subject to the amendment that the reporting limit for write off of irrecoverable debt within the policy be linked to the minimum approval limit documented in the Wirral Council Constitution.

50 **NON-RECOVERY OF PENSION OVERPAYMENTS**

The Head of Pensions Administration, Yvonne Murphy, presented a report that requested approval to write off a sum of £48,750.30, in respect of pension overpayments that had arisen. Legal Services had recommended write off as they were deemed irrecoverable or were now Statute Barred.

The appendix to 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 particular person (including the authority holding that information).

It was noted that paragraph 3.3 of the report that 'the delegated authority of the Director of Resources to write-off debt is limited to £1,000 in any one case' was correct as the recommendation for write-off from legal services and subsequent reporting to Members predates the change to the Council's Constitution.

Councillor Steve Foulkes suggested that Officers ensure that the operational process for life certification be clarified with pensioner members on notification of their change of residence to overseas.

Resolved - That the sum of £48,750.30 be approved for write-off.

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

The Head of Finance and Risk, Donna Smith, presented a report that requested that Members agree to the write off of £592,846.07 of unrecoverable rent arrears from the Fund's property portfolio. The annual property rental income for 2019/20 was £30.9 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 £592,846.07 be approved.

52 **MINUTES OF WORKING PARTY MEETINGS**

Resolved - That the minutes of the Working Party be approved.

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

Moved by the Chair and formally seconded by Councillor Cherry Povall, it was**:**

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.

54 **NON RECOVERY OF PENSION OVERPAYMENTS EXEMPT APPENDIX**

The appendix to the report on Non Recovery of Pension Overpayments was exempt by virtue of paragraph 3.

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

The appendix to the report on Property Portfolio Rent Arrears and Write Offs was exempt by virtue of paragraph 3.

56 **CATALYST FUND – LOCAL INVESTMENTS UPDATE**

The Director of Pensions, Peter Wallach, presented a report that provided members with an update on MPF's local Investment Programme.

1. Background and local investment strategy.
2. Updates on current investments and exits.
3. Pipeline and indirect investment indirect investment strategy.

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

Resolved – That the report and progress being made in the deployment of capital in local investments be noted.

57 **MINUTES OF WORKING PARTY MEETINGS EXEMPT REPORT**

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

Grant Thornton

Merseyside Pension Fund – Annual External Audit Plan

Year ending 31 March 2021

21 May 2021

Contents

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

Key matters

Factors	Our response
Pension Fund developments We have continued to hold regular meetings with the senior finance team at the Fund. During these meetings we discuss a range of key issues regarding the Fund's general developments, current and projected financial performance, developments within the LGPS Northern pooling arrangements and regulatory oversight. At the time of producing this Plan, the Council's latest fund asset valuation shows a significant increase in the value of the net assets of the Fund. At 31 March 2020, the Fund reported net assets of £8.882bn. This valuation was lower than had previously been forecast, due to the volatility experienced in financial markets in March 2020 as a result of the outbreak of the Covid-19 pandemic. Since then, financial markets have recovered significantly and the Fund has seen large increases in the value of their assets. As at 31 January 2021, the Fund's assets were valued at £9.748bn. Whilst management are expecting less significant growth in quarter 4 of 2020/21, the performance of the Fund throughout the year has recovered a significant amount of the lost growth reported in the previous year end financial statements.	• As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Fund's management. • We will continue to provide you with sector updates via our Pensions Committee updates. • We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control– refer to page 5.
Impact of Covid 19 pandemic The Covid-19 pandemic has impacted upon all of our lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of Managing public money and have a statutory duty to carry out their functions effectively, efficiently and economically. 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. The Fund has successfully implemented remote working arrangements and has not recorded any no significant increases in staff sickness or significant changes to governance processes. As detailed above the most significant impact of Covid-19 on the Fund has been with regards to the volatility caused to investment markets and in particular the ongoing impact of lockdowns/remote working on the valuation and rental income return from investment properties.	• The Pension Fund's valuer reported a material uncertainty in regards to the valuation of direct properties in 2019/20 due to the Covid 19 pandemic. Our understanding of the latest RICs guidance and discussions with the Fund is that this uncertainty disclosure will not be repeated for 2020/21. In line with our audit approach in previous years' we have identified a significant risk in regards to the valuation of direct properties – refer to page 6.

Introduction and headlines

Purpose

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

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed 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.

Scope of our audit

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

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

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

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 Directly-held Investment Property
- 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 planning materiality to be £87.735m (PY £88.8m) for the Pension Fund, which equates to 0.9% of your net assets as at 31 January 2021. 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 £4.386m (PY £4.4m).

Audit logistics

Our interim visit will take place in March and April and our final visit will take place during July to September. 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 £46,249 (PY: £44,356) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

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

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 Fraud in Revenue and Expenditure Recognition	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. We have also rebutted the presumption of fraud in expenditure 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.

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 (£472 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 2021. 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 valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write out to them and discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuation 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 • where available review investment manager service auditor report on design effectiveness of internal controls.
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 (£2,062 million) 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 as valuation experts to estimate the fair value as at 31 March 2021. All of the level 3 investments held by the Fund are internally managed. 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 2021 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Pension Fund Committee members:

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

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and presented to Pensions Committee for ratification. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Materiality

The concept of materiality

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

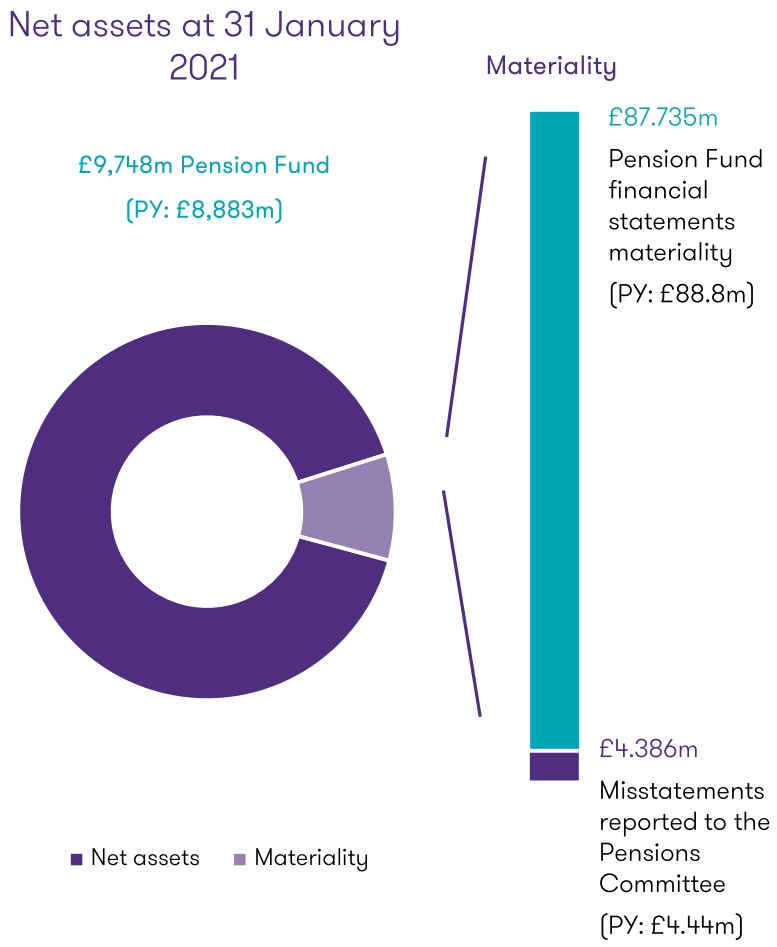
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £87.735m (PY £88.8mm), which equates to 0.9% of your net assets as at 31 January 2021.

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.

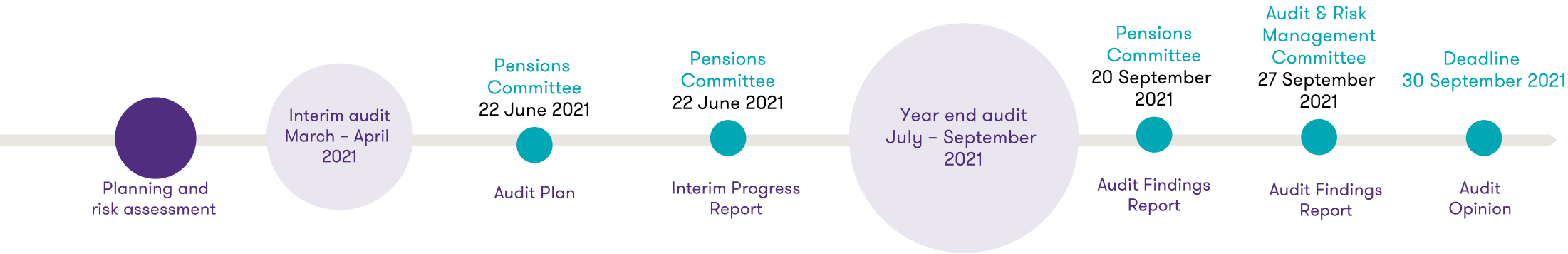
Matters we will report to the Pensions Committee

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 £4.386m (PY £4.4m).

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.



Audit logistics and team



Andrew Smith, Key Audit Partner

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

Stuart Basnett, Audit Manager

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

Chris Blakemore, Audit Incharge

Chris assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He supervises and co-ordinates the on-site audit team.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable you have agreed with us, including all notes, the Annual 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 for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Merseyside Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £28,399. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for directly –held investment property valuations, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with management.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Merseyside Pension Fund Audit	£30,399	£44,356	£46,249
IAS 19 Assurance Letters	£8,250	£12,250	£12,250
Total audit fees (excluding VAT)	£38,649	£56,606	£58,499

Assumptions

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

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

Relevant professional standards

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

Audit fees – detailed analysis

Scale fee published by PSAA	£28,399
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£2,150
Enhanced audit procedures for Directly held Property and auditors expert	£5,950
Enhanced audit procedures for Investments3	£1,750
Audit fee 2019/20	£38,249
New issues for 2020/21	
Increased audit requirements of revised ISAs	£8,000
Total audit fees (excluding VAT)	£46,249

Independence and non-audit services

Auditor independence

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

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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	£12,250 (14 letters)	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 £12,250 in comparison to the total fee for the audit of £46,249 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			

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Grant Thornton

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**STATEMENT OF ACCOUNTS 2020/21 – MANAGEMENT QUESTIONS**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

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

Grant Thornton, as part of their audit of the Fund's Statement of Accounts for 2020/21 have asked management to respond to a series of questions.

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

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

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

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

RECOMMENDATIONS

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

3.1 The Fund is statutory required to prepare and publish financial statements; they are published within the Council's financial statements as an appendix and within the Fund's annual report.

3.2 The Fund has many management processes and oversight to ensure its financial statements are compliant with relevant requirements and to reduce the risk of error or misstatement.

3.3 The external audit approach in previous years was to request management to complete a questionnaire as well as the Chair of Audit & Risk Management Committee. For 2020/21, the approach is for management to respond to the questions and for the questions and responses to be reviewed by Pensions Committee and for Committee to consider whether these responses are consistent with its understanding and whether there are any other comments Committee wishes to make.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report

5.0 LEGAL IMPLICATIONS

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

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are 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

Grant Thornton Questionnaire with management responses.

BACKGROUND PAPERS

CIPFA - Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
None	

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Grant Thornton

Informing the audit risk assessment for Merseyside Pension Fund 2020/21

Andrew Smith
Key Audit Partner
T 0161 953 6472
E Andrew.J.Smith@uk.gt.com

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

Table of Contents

Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	**COVID19** Covid19 had an impact on investment valuations at the beginning of the financial year, with volatility in financial markets, however, Fund valuations during the financial year have recovered from that reported at the last year end and the value of the Fund as at 31 March 2021 is £9.9 bn (PY £8.6 bn). The direct property valuation was reported on the basis of “material valuation uncertainty” in 2019/20, however, this uncertainty is not reported by the property valuer on the valuation for 2020/21. Investment income and in particular property rental income reduced in 2020/21, with local and national lockdowns affecting revenues and profitability. MPF quickly moved its operations and staff to remote working at the beginning of the pandemic with a limited number of staff attending the office, however, there has been no significant impact upon the financial statements. **Contributions** A number of our employers paid their contributions upfront for a 3 year period at the beginning of 2020/21, consequently contribution income for 2020/21 will be significantly higher than for the previous year. **Property Rental Income** MPF switched from quarterly to monthly accounting rental statements from CBRE during 2020/21 and is now accounting for rent as demanded and therefore due in the financial year. This has resulted in additional rent demanded being accounted for in 2020/21, an explanation to set out and quantify the amounts involved will be included within the accounts.

General Enquiries of Management

Question	Management response
2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies adopted by MPF have been reviewed and are considered appropriate. There has been a change in accounting policy for rental income. The Fund has moved to monthly accounting for rent statement during 2020/21 and now accounts for rent demanded in the financial year.
3. Is there any use of financial instruments, including derivatives?	The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities. Forward currency contracts are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling to manage FX risk. Equity option contracts are used by the Fund to protect it from falls in value in its main investment markets. Total return swap contracts are used by the Fund to rebalance the investment portfolio to manage investment exposure.
4. Are you aware of any significant transaction outside the normal course of business?	None

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None
6. Are you aware of any guarantee contracts?	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by Merseyside Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	External solicitors are used for investment related activities, for example, rent reviews and new property lettings as well as legal documents in relation to private market assets. During 2020/21, MPF used the following external solicitors appointed using procurement frameworks: Brabners DWF Pinsent Masons Gowling Osbourne Clarke

General Enquiries of Management

Question	Management response
9. Have any of the Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Aon Hewitt – Strategic Investment Consultant Mercer – Actuary Services CBRE Capital Advisors – Strategic Property Advisors CBRE Asset Services – Property Management Pensions Investments Research Consultants – Responsible Investment Lexlea – Independent Investment Advisor Tatton Consulting Services – Independent Investment Advisor

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
1. Have the Fund assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Fund's risk management processes link to financial reporting?	Yes, none identified. Regular risk assessments are undertaken at MPF including the risk of fraud, with significant risks documented within the risk register, which is formally reviewed every 6 months and reported to the Governance & Risk Working Party and Pensions Board. The risk register is also a standing agenda item at the monthly management meeting (FOG). A robust control environment exists at MPF, with strong and effective internal controls (structure, SOD, authorisation etc) to mitigate risks, these are documented within procedures, work flows, compliance manual and evidenced by the internal audit reports. MPF has an agreed SLA with Internal Audit with 150 audit days assigned to the Fund, in recognition of the complexities of a large Pension Fund. Management regularly request new systems/processes to be reviewed by internal audit to independently assess and ensure a robust control environment is maintained. MPF ensure there is appropriate operational due diligence on appointment and ongoing monitoring programme of external investment management mandates. There is an ongoing review of AAF106 assurance reporting on internal controls for service organisation used by MPF. MPF staff undertake the corporate fraud awareness training. A robust budget monitoring process is in place.

Fraud risk assessment

Question	Management response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Investments Transfers out Accounts payable However, as stated above, the Fund has robust internal controls and considers the risk of fraud to be low.

Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Merseyside Pension Fund as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	No Management communicate to those charged with governance through various reports to GRWP, IMWP, Pensions Committee & Pensions Board. The risk register is presented to GRWP and Pensions Board. The Chief Internal Auditor prepares an annual report on MPF's control environment and activities at MPF and presents this along with the audit plan to GRWP and Pensions Board.
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Merseyside Pension Fund where fraud is more likely to occur?	No, however, there is an inherent risk of fraud in all pension schemes. The Pensions Regulator identifies and the Fund continues to be concerned about pension scams and cyber-security. Fund practices continue to be strengthened and monitored; these are inherent sector risks rather than MPF specific risks.
5. What processes do Merseyside Pension Fund have in place to identify and respond to risks of fraud?	MPF has a robust internal control environment including separation of duties to mitigate fraud risks. Temporary moratorium on Transfers from April 2020 – July 2020 in line with TPR advice. Participation in the National Fraud Initiative A comprehensive internal audit plan for MPF under the agreed SLA.

Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for Merseyside Pension Fund, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The overall control environment is assessed as being robust. This is concluded from management reviews, and assurances gained from outcomes of internal and external audit work. Internal Audit reports throughout 2020/21 have found that there is a sound system of control in place, and that those controls are consistently applied and fully effective with no significant weaknesses identified. The management team at MPF continues to ensure identified risks are effectively managed and the recommendations emanating from the audit work are consistently and effectively implemented within the agreed timescales. Policies and procedures are determined to ensure there is a robust control environment to help prevent, deter or detect fraud There are no areas where controls may be overwritten or inappropriate influence over the financial reporting processes to achieve finance targets.
7. Are there any areas where there is potential for misreporting?	No areas identified.

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Pensions Committee? How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	In assisting the Scheme Manager, the Pension Board has a role in reviewing the Fund's governance arrangements, the control environment, policies and practices which includes fraud issues and risks. There is a Governance & Risk Working Party that all members of Pensions Committee are part of, that meets twice yearly. The risk register is reported to GRWP. The Chief Internal Auditor prepares an annual report on MPF control environment and activities at MPF and the audit plan for the following year and presents this to GRWP, members of Pensions Committee has direct access to the Chief Internal Auditor and can ask questions of audit or management. This report will be presented to a future GRWP for 2020/21.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None.
13. Have any reports been made under the Bribery Act?	None.

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Merseyside Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?	Robust policies and procedures with a strong internal control environment. Additional assurances obtained by the Internal Audit plan. The Pensions Regulator has a regulatory oversight role for LGPS and MPF is required to undertake a compliance review of compliance with Number 14 Code of Practice. In assisting the Scheme Manager, the Pension Board has a role in reviewing the Fund's governance arrangements, the control environment, policies and practices. No regulatory changes are anticipated to have a significant impact on the Fund's financial statements
2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?	Regular reports are taken to Pensions Committee and working parties. The Chair of Pensions Board reports to Pensions Committee.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	There have not been any instances of non-compliance with laws and regulations since 1 April 2020 with an on-going impact on the 2020/21 financial statement.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No

Impact of laws and regulations

Question	Management response
5. What arrangements does Merseyside Pension Fund have in place to identify, evaluate and account for litigation or claims?	Actual or potential litigation or claims would be reported to management team meeting and to those charged with governance. Legal and other professional advice would be sought as required.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Related Parties

Issue

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Merseyside Pension Fund's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and Merseyside Pension Fund • whether Merseyside Pension Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	There have been no changes to related parties.
2. What controls does Merseyside Pension Fund have in place to identify, account for and disclose related party transactions and relationships?	All Members of Pensions Committee and Local Pensions Board are required to complete an annual declaration. Senior Officers of the Fund and all investment team officers are required to complete an annual declaration. All declarations received are assessed for inclusion within the financial statements related party note.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	All Fund activities and transactions are in accordance with Wirral Council and MPF policies and procedures, including Scheme of delegation, contract procedures rules, MPF's compliance manual and conflicts of interest policy.

Related Parties

Question	Management response
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	All Fund activities and transactions are in accordance with Wirral Council and MPF policies and procedures, including Scheme of delegation, contract procedures rules, MPF's compliance manual and conflicts of interest policy.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Pensions Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The identification of transactions, events and conditions begins with an assessment of the existing accounting estimates. These are re assessed and revised for the year that is being closed. The requirement for new estimates are identified through the closedown process by on-going assessment of accruals with team members and assessment of external plus internal financial influences and factors. The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. 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 COVID19 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.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. Continued	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 2020/21 the property valuation is not reported as being subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS valuation - Global Standards. In 2019/20, due to COVID-19, the property valuation was reported on the basis of 'material valuation uncertainty' and stated consequently, less certainty, and a higher degree of caution should be attached to the valuation than normally would be the case.
2. How does the pension fund's risk management process identify and addresses risks relating to accounting estimates?	The Fund's Finance team review accounting estimates to ensure they are reasonable. The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Fund's Finance team review accounting estimates to ensure they are reasonable during the planning stages of year end. The Fund's Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices.

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	The Funds Finance team and Investments team review through ongoing due diligence and monitoring of Fund investments to ensure Fund investment valuations have been prepared following proper practices. Internally prepared estimates are reviewed against actuals once known and consideration given to any changes required for preparing future estimates.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes were considered necessary.

Accounting Estimates - General Enquiries of Management

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

Accounting Estimates - General Enquiries of Management

Question	Management response
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Please see question 1 response.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes reviewed and considered reasonable.
12. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Set out in this document and reported to Pensions Committee. Previous arrangements considered reasonable and adequate, with no previous issues reported for example by external or internal audit.

Appendix A Accounting Estimates

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

Appendix A Accounting Estimates

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

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pooled Investments – Hedge Funds and Infrastructure	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.	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.	Custodian and Fund Managers	The Fund's Investment Consultants have provided the Fund with their assessment of the potential variance.	No

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WIRRAL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**LOCAL GOVERNMENT PENSION SCHEME UPDATE**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report informs Members on the publication of a Written Ministerial Statement on McCloud and the remedy for the Local Government Pension Scheme (LGPS), along with recent developments on ongoing national issues and overriding legislation that will impact on the administration of the LGPS.

RECOMMENDATION

That the Pensions Committee be recommended to note the operational implications emerging from impending changes to the regulations and industry developments.

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**

The McCloud Remedy

3.1 On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a Written Ministerial Statement on McCloud and the LGPS.

3.2 To provide some context for new Committee Members, the 'Court of Appeals' ruling in December 2018 confirmed that the transitional protections provided for members of the Judges' and Firefighters' pension

schemes when the public sector pension reforms were implemented in 2014 and 2015, were age discriminatory.

This was because eligibility for these protections was based on an age criterion. Similarly, age-restricted transitional protections were also provided across the other public service pension schemes including the LGPS and last year the government announced that it would seek to remedy the position.

3.3 In the LGPS the transitional protections took the form of a final salary underpin to the new CARE benefit structure implemented in 2014.

On 16 July 2020, 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 and can be accessed from the following link:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf

The consultation closed on 8 October 2020 and a response to the consultation is expected later this year.

3.4 The recent written statement can be accessed from the following link:

https://questions-statements.parliament.uk/written-statements/detail/2021-05-13/hcws26

3.5 The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirms that:

a) the age requirement for underpin protection will be removed

b) a member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection

c) the remedy period will end on 31 March 2022

d) the underpin calculation will be based on final pay at the underpin date, even when this is after 31 March 2022

e) there will be two stages to the underpin calculation:

- the first on the underpin date – the date of leaving or on the normal pension age in the 2008 Scheme, if earlier
- he second when the benefits are paid

f) the regulations will be retrospective to 1 April 2014.

We expect MHCLG to issue a full response to the consultation later this year.

3.6 A Public Service Pensions Bill will introduce amendments to incorporate the McCloud judgment into public service pension schemes, and subsequently MHCLG will publish draft regulations later this year implementing the remedial McCloud provisions in readiness for the effective date of 1 April 2023.

3.7 Whilst the effective date is welcome in terms of allowing more time to implement the changes, it adds to the number of retrospective leaver calculations that need to be reviewed for all qualifying leavers from 1 April 2014 to 31 March 2023.

3.8 In preparation for the enactment of the legislation, Fund Officers have undertaken a project to identify qualifying members who are in scope for underpin protection and are verifying the data held in relation to hour changes and breaks in service received for membership accrual post 1 April 2014.

Cost Management of Public Sector Pension Schemes

3.9 Under the new public service pension scheme framework implemented by the Public Service Pension Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure the reforms remain affordable and sustainable.

3.10 There are two processes running in parallel, an “Employer Cost Cap” as determined by HM Treasury in order to demonstrate consistency between the public service pension schemes, and a “Future Service Cost” process operated by the Scheme Advisory Board to reflect the specifics of the LGPS experience in assessing the cost of pension scheme reform.

3.11 The 2016 review of the cost of public sector pension schemes, in the form of the ‘cost management process’, has recommenced following the pause in 2019 due to the uncertainties associated with the McCloud judgment and the impact for the LGPS.

3.12 HMT has already confirmed that the McCloud remedy will be taken into account in its ‘cost management process’ and where the inclusion of the McCloud remedy cost leads to a breach of a cost cap (potentially triggering a benefit reduction) a reduction to benefits will not be applied.

3.13 The Scheme Advisory Board is deliberating as to whether it is appropriate to allow for McCloud in the ‘Future Service Cost’ process and an announcement is expected during the summer.

Request for Exit Payment Data

3.14 MHCLG wrote to Chief Financial Officers of Councils on 27 May 2021 to request historical information on redundancy and exit payment costs over the past five years. This information will then be considered as part of the Government's review of the public sector cap on exit payments, the reintroduction of which appears to remain a pressing key policy objective.

3.15 It is expected that details will emerge in the coming months on the extent and timeline of the policy.

Consultation on Increasing the minimum pension age from 55 to 57 in April 2028

3.16 Merseyside Pension Fund responded to the recent consultation on the national increase of the minimum pension age from age 55 to 57.

A copy of the response is attached as Appendix A to the report.

3.17 The main purpose of the government proposal is to ensure that pension savings are only used to provide income and security in later life and to broadly realign the earliest retirement age to be 10 years earlier than state retirement age.

3.18 The Fund response to the consultation questions highlighted the main points of concern, that there is a tangible risk that the increase to minimum pension age will be unpopular with savers, as this will require employees to both work and lock money away for a longer period.

It is the Fund's view that the policy objective appears counterintuitive to the success achieved by Government, to extend pension provision amongst workers via the auto-enrolment programme.

4.0 FINANCIAL IMPLICATIONS

4.1 The financial implications of these changes for stakeholders and the Fund are not currently known. As noted in the report, the Cost Management process will have some influence.

5.0 LEGAL IMPLICATIONS

There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The Written Ministerial Statement for McCloud provides a sufficiently high-level policy directive to allow pension funds and software providers to scope and plan the required changes to administrative processes and software.

It also provides enough information for funds to inform employers of requirements and to work collaboratively in developing national communications for members of the LGPS; in readiness for the effective date of 1 April 2023.

6.2 The Fund is mindful that if the minimum pension age increases from age 55 to 57 some employees will rush to retire before the step-up in minimum retirement age takes effect.

As such additional resources will be necessary to enable schemes to implement engagement campaigns with members, to ensure that they make informed decisions when accessing benefits, as opposed to making 'knee-jerk' reactions to the change in the regulations. This additional resource requirement will be considered nationally along with the development of any communication materials on a collaborative basis.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in this report.

9.0 EQUALITY IMPLICATIONS

9.1 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.

REPORT AUTHOR: **Yvonne Murphy**
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APPENDICES

Merseyside Pension Fund Response - Increasing Minimum Pension Age

BACKGROUND PAPERS

HMT Policy Note – 16 /7 /2020 Cost Cap and McCloud Cost
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf
https://questions-statements.parliament.uk/written-statements/detail/2021-05-13/hcws26

SUBJECT HISTORY (last 3 years)

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

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

c/o nmpaconsultation@hmtreasury.gov.uk

Direct Line: 0151 242 1390

Please ask for: Yvonne Murphy

Date: 22 April 2021

Dear Sirs

Increasing the Normal Minimum Pension Age: Consultation on Implementation

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.

Areas of General Concern

In addition to responding to the specific questions posed within the consultation, the Fund would like to highlight its main points of concern regarding the policy intent and the proposals. There is a tangible risk that the increase to minimum pension age from 55 to 57 will be unpopular with savers, as this will require employees to both work and lock money away for a longer period. As such the policy objective appears counterintuitive to the success achieved by Government, to extend pension provision amongst workers via the auto-enrolment programme.

There is also a possibility that some employees will rush to retire before the step-up in minimum retirement age takes effect, and as such additional resources will be necessary to enable schemes to implement engagement campaigns with members to ensure they make informed decisions when accessing benefits, as opposed to making 'knee-jerk' reactions to the change in the regulations.

Care will also need to be taken to alert members who are looking at moving pension schemes and transferring entitlements before the regulations take effect, specifically as to the impact this could have on their normal minimum pension age. Schemes will need to strengthen record-keeping and produce clear communication materials to highlight the minimum pension age that applies to their current pension entitlement and when a protected age of 55 may be lost.

Our Response to Consultation Questions

Q1 *Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?*

A1 As the LGPS provides members with "an unqualified right" to access benefits from age 55, for members born after 6/4/1971, who join the scheme after the consultation date of 11/2/2021, the proposed changes represent a significant reduction to the flexibility of the Scheme as the protected normal minimum pension age of 55 does not apply to these members.

Section 2.5 of the consultation document advocates that:

> *"an individual member of any registered pension scheme (occupational or non-occupational) who has a right under the scheme rules at the date of this consultation to take pension benefits at an age below 57 will be protected from the increase in 2028"*

and consideration should be afforded to amend this statement to:

> *"an individual member of any registered pension scheme (occupational or non-occupational) who, at the date the Regulations come into effect, has a right under the scheme rules to take pension benefits at an age below 57 will be protected from the increase in 2028"*

The date new Regulations in respect of NMPA come into effect is a more logical "protection date" than that of the beginning of the Consultation on raising the NMPA. This suggestion would also extend by some months the protection date beyond the present proposed date of 11 February 2021. An extension of even 6 months would potentially benefit many pension scheme members across the UK, reduce potential member confusion and reduce the additional burdens on pension scheme administrators.

To explain, empirical evidence indicates that the life expectancy of an average LGPS member is broadly 20 years after Normal Retirement Age, but a significant number of members have reduced life expectancy and choose to access their pension early. The proposals curtail the options for these members and further inhibit returns from the scheme in comparison to those members with longer lifespans.

It would also appear that transferring out of a scheme which has a protected pension age will result in the loss of the right to take benefits from age 55, for individual transfer events that are not subject to a block transfer. This creates an issue for members transferring out from 11 February 2021 as they will lose the right to a protected pension age of 55 which may not have been communicated by the ceding scheme or independent financial adviser. Therefore, it would appear equitable that individual transfers completed following the consultation date and prior to the change in the schemes minimum pension age should retain their protected minimum pension age of 55.

Furthermore, consideration is required as to the impact on job mobility within the public sector as the policy appears to reduce the effectiveness of the 'Club Memorandum' which currently ensures that employees receive broadly equivalent entitlements when they transfer their pensionable service to a public service pension scheme.

From an employer perspective, the proposal reduces the flexibility of the scheme to assist with workforce restructuring as increasing the minimum pension age to access benefits significantly reduces redundancy packages and incentives for staff to volunteer for early retirement schemes.

Q2 *Are there any particular issues that the government should consider in the way NMPA is defined in the pension scheme rules?*

A2 NMPA is usually considered on a scheme-by-scheme basis depending on each individual set of rules. For example, some scheme rules specify benefits are payable from normal minimum pension age rather than explicitly referring to a particular age. As NMPA increases, it is expected that the date at which members can access their benefits will also increase and there will be no protected minimum pension age afforded to contributing members; unlike schemes where the normal minimum pension age is directly quoted within the regulations or pension plan.

If the government ignores this aspect of scheme rules in its implementation, it could be viewed as endorsing further inequalities across the pension industry.

Q3 *The government proposes that that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028.Are there any alternative options or issues the government should consider around the treatment of accrued and future pension saving?*

A3 It is welcomed that the protected pension age applies to all benefits accrued in the scheme, including benefits accrued after the change date as it would be unnecessarily complex to have two different benefit ages relating to entitlements in the scheme.

Introducing further protections in addition to '85-year rule' protections and the 'underpin protection' creates an additional layer of complexity within the LGPS, as there will now also be two different minimum pension ages to administer, resulting in costs for system reprogramming, communication, and staff training.

Further consideration of the overriding regulations is required as to whether a member's protected pension age extends to a consecutive pensionable employment which commences within the same scheme following the qualifying cut-off date (proposed to align with the consultation date of 11 February 2021).

In addition, members and administrators require a clear directive as to whether the protected pension age will be retained if members aggregate previous membership with consecutive employments when transferring between scheme employers or across LGPS Funds.

Q4 *Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?*

A4 Pension Funds need to consider the impact of the proposed change to the NMPA on the members of their scheme and determine whether some or all of the members of their scheme will benefit from a protected minimum pension age.

Where a member's NMPA will change from April 2028, Funds will need to consider when and how to inform the individual to ensure that affected members have sufficient notice of the change and can adjust any plans they may have to retire or access their benefits accordingly.

There are also immediate actions required to communicate to members that there is potential to lose the right to retire from 55 for transfers that are 'in train' but not yet completed.

Where there are two different retirement age regimes in one scheme this creates a layer of complexity and additional costs in communicating the features of the scheme to members.

Q5 *Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?*

A5 Moving the NMPA to age 57 removes flexibility for LGPS members and as there are actuarial reductions applied to benefits accessed prior to normal pension age, there appears to be no justification for the increase. It is likely that members with a protected minimum pension age and a reduced life expectancy will make active choices to take their benefits early from the LGPS as transferring out to obtain an impaired life pension will result in a loss of the right to take benefits from age 55.

Q6 *Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?*

A6 The LGPS already allows partial access, members can receive benefits, with employer consent, and remain in their pensionable employment, all be it in some form of reduced capacity.

Members may welcome the extended flexibility of voluntarily accessing partial accrued entitlements that are subject to different retirement ages and varying actuarial reductions. This will increase the complexity and resource requirements in administering the scheme.

Yours faithfully

Yvonne Murphy
Head of Pensions Administration

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**MERSEYSIDE PENSION FUND BUDGET OUT-TURN 2020/21 AND FINANCIAL YEAR 2021/22**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

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

- The out-turn for the financial year 2020/21.
- The finalised budget for the financial year 2021/22.

The actual out-turn for 2020/21 is £21.5m, lower than the original budget approved 3 February 2020 of £23.0m and lower than the projected out-turn of £22.0m as reported at Pensions Committee on 29 March 2021. The underspend is largely due to planned projects and areas of work being deferred to 2021/22 as a result of the pandemic, and the assumptions used for staffing.

The 2021/22 budget reported in March has been reviewed and remains the same as reported and approved in March, the finalised 2021/22 budget is £25.5m.

The budget for 2021/22 is higher at £25.5m than £23.0 in 2020/21 primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

RECOMMENDATIONS

That the Pensions Committee be recommended to note the out-turn for 2020/21.

That the Pensions Committee be recommended to approve the finalised budget for 2021/22.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 This has not changed since the report in January as below.

2.2 The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements are subject to ongoing review with additional scrutiny from the NLGPS Joint Committee

3.0 BACKGROUND INFORMATION

3.1 The headline figures are that, during the financial year 2021/22, it is estimated that MPF will pay £368m in pensions and receive £172m in contributions from employers and employees. The Fund had a value of £9.9bn at 31 March 2021. The proposed administration costs of £25.5m including £17.4m of investment management charges to external managers represent a cost of £182.35 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs are approximately £123.95 per member or 0.18% of assets under management.

3.2 Pensions Committee, at its meeting on 29 March 2021, received an estimate of the out-turn for 2020/21 and it was also agreed that I would report back on the final out-turn. The finalised out-turn is included in appendix 1. The actual out-turn for 2020/21 is lower than the projected out-turn reported in March 2021, due to the number of estimates required for the March report. As reported in March, the underspend is largely due to budgeted projects and areas of work being deferred to 2021/22 as a result of the pandemic and the assumptions used for staffing.

3.3 Pensions Committee at its meeting on 29 March 2021 agreed the budget for 2021/22 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

3.4 The finalised budget is included in this report in appendix 1, there are no changes to that reported and approved at Pensions Committee in March. As reported in March the budget for 2021/22 is higher at £25.5m, compared to 2020/21, primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

3.5 Reduced costs and excellent value for money is a pooling criterion and Investment management fees are a significant element of the Fund's costs. The Fund and Northern LGPS use CEM to benchmark investment management fees and analyse these costs in the context of risk and return, and relative to other LGPS funds and private pension funds internationally. The information is used by the Fund and the Northern LGPS to ensure the effectiveness of the Fund's expenditure in this key area. The CEM benchmarking report for 2020/21 when available, will be reported to a future working party.

4.0 FINANCIAL IMPLICATIONS

4.1 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment performance, investment income and employee and employer contributions, the full costs are estimated to be £182.35 per member (including active contributors, deferred and pensioners).

The costs per member at Merseyside Pension Fund are competitive with other pension funds of similar size in both the public and private sector particularly when analysed net of investment performance.

4.2 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from pooling and increasing the proportion of internally managed assets.

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 This has not changed since the report in March.

The Chair of the CIPFA Pensions Panel has previously written to all administering authorities reminding them of their responsibilities regarding the resourcing requirement of LGPS funds. The Fund regularly reviews its requirements and updates its Risk Register to reflect identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage investments. It is believed this budget provides adequate resources for these two core functions.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

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APPENDICES

The budget for 2021/22 including the out-turn for 2020/21 is attached as appendix 1 to this report.
The original appendix as reported to Members on 29 March 2021 is attached as appendix 2 to this report for information.

BACKGROUND PAPERS

CIPFA - Service Reporting Code of Practice for Local Authorities

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee: **Pension Fund Budget**	**29 March 2021** **3 February 2020** **16 July 2019** **21 January 2019**

Appendix 1

Value of the Fund	£9.9bn	*31/03/2021*
Investment income Received	£210m	*Projected 2021/22*
Pensions Paid	£368m	*Projected 2021/22*
Contributions Received (see note 1)	£172m	*Projected 2021/22*
Active Contributing members	47,193	*31 March 2021*
Deferred members	39,295	*31 March 2021*
Pensioners	53,535	*31 March 2021*
Total Members	140,023	*31 March 2021*

		Budget 2020/21 (£)	Actual Out-Turn 2020/21	Budget 2021/22 (£)
Employees				
	Pay, NI and Pension	3,674,058	3,238,236	3,771,707
	Training	20,000	15,350	20,000
	Other Staffing Costs	41,986	20,597	51,196
		3,736,044	**3,274,183**	**3,842,903**
Premises				
	Rents	199,124	199,124	206,433
		199,124	**199,124**	**206,433**
Transport				
	Public Transport Expenses	33,990	218	16,600
	Car Allowances	2,500	640	3,000
		36,490	**858**	**19,600**
Supplies				

Furniture and Office Equipment	10,000	1,194	10,000
Printing and Stationery	18,500	8,642	13,000
Computer Development and Hardware	643,000	493,691	688,000
Postages and Telephones	101,000	69,514	64,700
External Audit	30,000	58,499	45,000
Services and Consultants Fees	1,501,580	721,240	1,534,840
Conferences and Subsistence	46,885	4,746	37,480
Subscriptions	147,174	217,458	180,430
Other	62,000	41,860	51,250
	2,560,139	**1,616,844**	**2,624,700**
Third Party			
Medical Fees	3,500	534	3,500
Bank Charges	10,000	10,756	10,000
Investment Management Fees	14,907,890	14,817,087	17,356,133
Custodian Fees	300,000	349,362	300,000
Actuarial Fees	625,000	577,629	500,000
Other Hired and Contracted Services	311,116	274,861	310,981
	16,157,506	**16,030,229**	**18,480,614**
Departmental & Central Support Charges	359,641	330,941	359,641
	359,641	**330,941**	**359,641**
Total Expenditure	**23,048,944**	**21,452,179**	**25,533,891**

Note 1 The estimated contributions for 2021/22 are lower than reported in the previous year, due to several of our employers paying additional upfront contributions in 2020/21 for a 3-year period. This will result in lower contributions being received in 2021/22 and 2022/23 to account for the upfront payments.

Appendix 2

Value of the Fund	£9.8bn	*31/12/2020*
Investment income Received	£210m	*Projected 2021/22*
Pensions Paid	£368m	*Projected 2021/22*
Contributions Received (see note 1)	£172m	*Projected 2021/22*
Active Contributing members	46,745	*31 March 2020*
Deferred members	40,185	*31 March 2020*
Pensioners	53,030	*31 March 2020*
Total Members	139,960	*31 March 2020*

		Budget 2020/21 (£)	Probable Out-Turn 2020/21	Budget 2021/22 (£)
Employees				
	Pay, NI and Pension	3,674,058	3,277,633	3,771,707
	Training	20,000	20,107	20,000
	Other Staffing Costs	41,986	42,038	51,196
		3,736,044	**3,339,778**	**3,842,903**
Premises				
	Rents	199,124	199,124	206,433
		199,124	**199,124**	**206,433**
Transport				
	Public Transport Expenses	33,990	291	16,600
	Car Allowances	2,500	723	3,000
		36,490	**1,014**	**19,600**
Supplies				

Furniture and Office Equipment	10,000	371	10,000
Printing and Stationery	18,500	7,766	13,000
Computer Development and Hardware	643,000	644,860	688,000
Postages and Telephones	101,000	53,822	64,700
External Audit	30,000	38,933	45,000
Services and Consultants Fees	1,501,580	778,564	1,534,840
Conferences and Subsistence	46,885	6,154	37,480
Subscriptions	147,174	193,370	180,430
Other	62,000	37,274	51,250
	2,560,139	**1,761,114**	**2,624,700**
Third Party			
Medical Fees	3,500	0	3,500
Bank Charges	10,000	9,812	10,000
Investment Management Fees	14,907,890	15,270,619	17,356,133
Custodian Fees	300,000	246,781	300,000
Actuarial Fees	625,000	641,211	500,000
Other Hired and Contracted Services	311,116	200,801	310,981
	16,157,506	**16,369,224**	**18,480,614**
Departmental & Central Support Charges	359,641	359,641	359,641
	359,641	**359,641**	**359,641**
Total Expenditure	**23,048,944**	**22,029,895**	**25,533,891**

Note 1 The estimated contributions for 2021/22 are lower than reported in the previous year, due to several of our employers paying additional upfront contributions in 2020/21 for a 3-year period. This will result in lower contributions being received in 2021/22 and 2022/23 to account for the upfront payments.

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**MEMBERS' LEARNING & DEVELOPMENT 2021**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to remind Members of the requirement to ensure that all involved in the governance of public sector funds can evidence that they have the knowledge, skills and commitment to carry out their role effectively. Details of the Fund's provision of opportunities for learning & development in the forthcoming year are set out in the appendix.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report and approve the proposed learning and development plan for 2021.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 The requirement for good governance in the Local Government Pension Scheme (LGPS) to be underpinned by informed decision-making, combined with the increasing complexity of financial markets and investment strategies, makes ongoing learning and development an essential element of Members' responsibilities.

2.0 OTHER OPTIONS CONSIDERED

2.1 Based on an ongoing assessment of training needs, there may be the option of reverting to bespoke, stand-alone training and development events.

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 14. Additionally, the Ministry of Housing, Communities and Local Government ("MHCLG") in England & Wales and the Scheme Advisory Board (SAB) have emphasised the need for the

highest standards of governance in the LGPS. This includes ensuring that all involved in the governance of public sector funds can evidence they have the knowledge, skills and commitment to carry out their role effectively. 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 The Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel has developed a technical knowledge and skills framework for the Local Government Pension Scheme. The framework was adopted by Pensions Committee in 2010 as demonstrating best practice and enables the Fund to determine that it has the appropriate mix of knowledge and skills necessary to discharge its governance requirements. It also assists Members in planning their training and development needs.

3.5 It is 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 is kept and reviewed annually by the Governance & Risk Working Party.

3.6 An outline training programme is attached as an appendix to this report. In light of the restrictions arising from Covid, it is anticipated that most, if not all, of the events will be virtual. As and when in person events recommence or officers become aware of other appropriate events, Committee members will be informed.

3.7 On occasion, formal training sessions are included in Investment Monitoring Working Parties. However, presentations by external professional organisations and the deliberative nature of all the working parties mean that attendance is regarded as an important element of Member development.

3.8 The Local Government Pensions Committee-organised 'Fundamentals' course is considered essential for all members to complete. It provides a comprehensive overview of the LGPS and the 'trustee' role carried out by those serving on a pension committee/panel. The course takes place over three days

(during October – December), on multiple dates in London, Leeds and Cardiff. While considered essential for new members, longer serving members of Pensions Committee may also wish to avail themselves of the course.

3.9 Officers are exploring opportunities for bespoke in person and online learning to assist members of Committee, Board and officers in fulfilling their responsibilities.

4.0 FINANCIAL IMPLICATIONS

4.1 Provision for Member learning and development is included in the Fund's annual operating budget.

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 Failure to maintain an appropriate level of knowledge and skills, commensurate with that thought appropriate for those acting in a trustee-like role in the LGPS, may impair effective decision-making and the requirements under MIFID II. Suitable and effective training and development activity should assist in mitigating this risk.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising from this report.

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APPENDICES

Appendix 1 - Learning & Development Programme.

BACKGROUND PAPERS

None.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	February 2020
Pensions Committee	January 2019
Pensions Committee	January 2018

APPENDIX 1

MONTH (2021)	EVENT
26 January	LGA - LGPS Update event Online
18 - 19 March	LGC Investment Seminar, Online
23 February	Investment Monitoring Working Party Online
9 - 11 March	PLSA Investment Conference, Online
18 - 19 May	PLSA Local Authority Conference, Online
29 June	Investment Monitoring Working Party Online
30 June – 1 July	PLSA ESG Conference, Online (NEW)
9 - 10 September	LGC Investment & Pensions Summit, Leeds
15 September	Investment Monitoring Working Party Online
12-14 October	PLSA Annual Conference, Online
16 November	Investment Monitoring Working Party Online
November	Annual Employers Conference, tbc
October – December	LGA - Fundamentals training days; multiple dates & locations tbc
December	LAPFF Annual Conference, Bournemouth (tbc)

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORTING**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Members with information on the Fund's current arrangements in relation to Taskforce on Climate-related Financial Disclosure (TCFD) requirements.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 It is important that Members are aware of anticipated regulatory changes and the pension fund's reporting arrangements.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

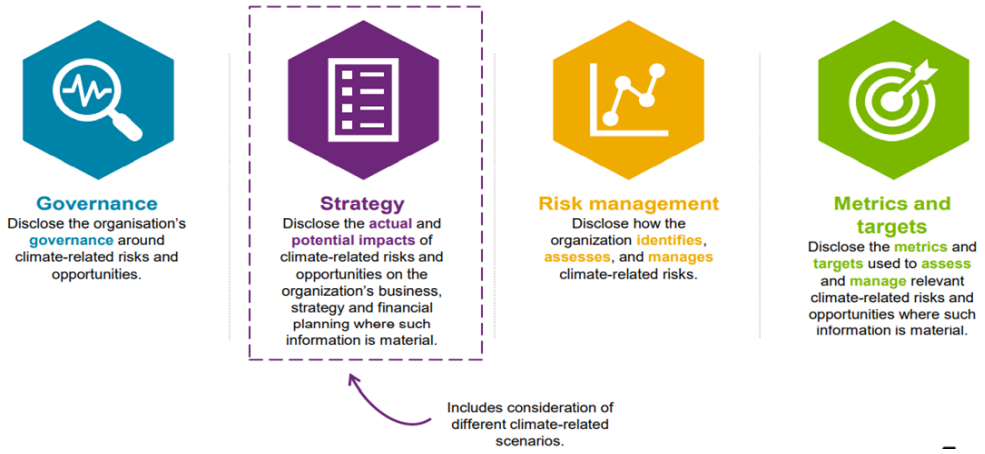
3.1 Members will be aware from reports to this Committee that the Fund has been actively developing its approach to the management of climate risk and a number of actions have been taken and implemented over the past five years.

3.2 One of the provisions in the recently enacted UK Pensions Schemes Act 2021 was requirement for trustees to ensure there is effective governance of schemes with respect to the effects of climate change, and to publish information relating to the effects of climate change on the scheme. This provides the legal framework for requiring trustees to make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This applies only to pension funds in the private sector. It

is expected that MHCLG will consult on TCFD for the LGPS later on this year with reporting required in annual reports from March 2023.

3.3 Addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work. The Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosure (TCFD) provides a global framework to translate non-financial information into financial metrics. The Fund has included a TCFD statement in its previous two annual reports and intends to continue with that practice with this year's report which is in preparation.

3.4 The TCFD has structured its recommendations around four pillars:



3.5 Some of the priority actions suggested for asset owners in the near term include:

Governance: review governance arrangements to ensure there is effective board level oversight and internal management processes are in place to effectively manage the climate-related risks and opportunities.

Strategy: begin the process of analysing portfolio resilience to climate-related scenarios, including a 2 degree or less outcome.

Risk management: assess the potential financial materiality of climate-related risks on the investment portfolio and evaluate the actions that need to be taken to mitigate these risks, as well as capturing new opportunities.

Metrics: measure GHG emissions where data are available or can be reasonably estimated, for each fund or investment strategy.

Engagement: engage with companies and external fund managers, to encourage greater transparency and alignment with the TCFD recommendations.

Disclose: publicly disclose all of the above actions and outcomes in annual reports and the climate risk in PRI's reporting framework.

3.6 The appendix to this report provides an extract from the Fund's annual report in relation to TCFD reporting. It is anticipated that mandatory reporting requirements will be more stringent.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly 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 Once introduced formally, the reporting requirements will place additional demands on staff and information technology systems in measuring, collating and reporting data.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Reporting under TCFD guidelines is an important element of the Fund's approach to the management of climate risk .

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APPENDICES

Appendix 1 – extract from MPF 19/20 annual report.

BACKGROUND PAPERS

https://www.fsb-tcfd.org/publications/

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

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

REPORT SUMMARY

This report provides members with the draft minutes of the previous meeting of the Local Pension Board.

Members are also advised that the Administering Authority has exercised its discretion to extend the contract of the independent Chair of the Board for a further term of four years.

RECOMMENDATION/S

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 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 reports to the Administering Authority on its activities and, as a part of that reporting, the minutes of its meetings are shared with Pensions Committee.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no implications arising directly from this report.

5.0 LEGAL IMPLICATIONS

4.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

5.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

7.1 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

8.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS

The Public Service Pensions Act 2013

CIPFA: the guide for local pension boards

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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

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LOCAL PENSIONS BOARD

Wednesday, 31 March 2021

Present:		J Raisin (Chair)	
		G Broadhead	R Irvine
		P Fieldsend	P Maloney
		D Ridland	L Robinson
In attendance:	Councillor	P Cleary	Chair, Pensions Committee
		J Simmonds	CEM Benchmarking
Apologies		S Van Arendsen	

38 **WELCOME AND INTRODUCTION**

The Chair welcomed Members of the Local Pensions Board and Officers to the online, virtual meeting.

39 **APOLOGIES**

Apologies had been received from Mr S Van Arendsen.

40 **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.

41 **MINUTES**

Resolved – That the accuracy of the minutes of the Local Pension Board held on 10 November 2020 be approved as a correct record.

42 **LGPS UPDATE**

The Head of Pensions Administration, Yvonne Murphy, introduced a report that provided Members with copies of the reports on developments in the LGPS that had been taken to Pensions Committee since the previous Board meeting.

The report updated Members on the Treasury announcement of 12 February, to issue a direction to disapply the 'Restriction of Public Sector Exit Payments Regulations 2020 (£95k cap) with immediate effect. Subsequently, on 25 February the Treasury had formally revoked the regulations with effect from 19 March 2021.

In addition, the report raised awareness of the publication of the final report from the Scheme Advisory Board on the Good Governance review and overriding legislation that would impact on the administration of the LGPS.

Further to updates provided at the last committee meeting on the £95k Exit Cap, HM Treasury (HMT) had published the Exit Payment Cap Directions 2021, on 12 February, accessible from the following link:

https://www.gov.uk/government/publications/guidance-on-public-sector-exit-payments/mandatory-hm-treasury-directions

The Directions had disapplied regulations 3, 9 and 12 of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect on the basis that the Government had concluded that the Cap may have had unintended consequences. This meant the exit cap did not apply to exits that took place on or after 12 February 2021.

HMT had also issued guidance which set out their expectation that employers who had capped exit payments since 4 November 2020 should revisit those cases and pay the additional sums that would have been payable had the cap not applied.

The Head of Pension Administration also highlighted that on 11 February, HMT had launched a consultation on the implementation of increasing the minimum pension age from 55 to 57 in April 2028. This was the age at which individuals could access their pension benefits without incurring an unauthorised tax charge.

Government had previously signalled its commitment to increase the minimum pension age to 57 in 2028 in its response to the Freedom and Choice in Pensions consultation in July 2014. The Government's justification was to reflect increases to life expectancy since the minimum pension age was last increased from 50 to 55 in 2010, so that tax efficient pension savings were only used to provide income and security in later life.

The consultation confirmed that the proposals did not apply to those who were members of the firefighters, police and armed forces public service pension schemes. The consultation would close on 22 April 2021 and MPF would provide a response to this consultation which would be shared with the Chair of the Pensions Board and members of the Pension Committee.

The Head of Pensions Administration responded to members questions and it was;

Resolved - That the report be noted.

43 **MPF BUDGET 2021 - 2022**

Donna Smith, Head of Finance & Risk, presented a report that had been presented to the Pensions Committee and had requested that Members approve the budget for the financial year 2021/22.

The budget for 2021/22 was attached as appendix 1 to the report.

The headline figures were that, during the financial year 2021/22, it was estimated that MPF would pay £368m in pensions and receive £172m in contributions from employers and employees. The Fund had a value of £9.8bn at 31 December 2020. The proposed administration costs of £25.5m including £17.4m of investment management charges to external managers represented a cost of £182.44 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs were approximately £124.01 per member or 0.18% of assets under management.

The budget for 2021/22 was higher at £25.5m than £23.0 in 2020/21 primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

Members were informed that the Fund was undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

The Head of Finance & Risk responded to members questions and it was;

Resolved – That the report be noted.

44 **FSS POLICY UPDATE**

The Head of Pension Administration presented a report that provided Members with a copy of the report updating the Fund's termination policy and a new contributions flexibilities policy that had been taken to Pensions Committee in February 2021. Appendix 1 to the report contained the Draft Termination Policy updates regarding exit debt payments and deferred debt agreement flexibilities and Appendix 2 to the report contained the Draft Policy regarding flexible contributions.

The report informed that the default position for exit payments was that they were paid in full at the point of exit. The termination policy had therefore been updated to allow for the new Regulations which allowed exiting employers (subject to a suitable review of the unaffordability of an immediate exit debt payment) to spread their exit debt over a set period or to enter into a Deferred Debt Arrangement allowing them to remain in the Fund with no active members. The policy set out the process that must be followed by the Fund when an employer exits the Fund (usually triggered when the last active contributing member leaves pensionable service). The new Regulations also permitted contribution rates to be adjusted between valuations. Currently the contribution rates set out in the valuation report stayed in place until the next valuation (except in limited circumstances or where an employer exits the Fund). These Regulations allowed changes to contributions to be made before the next valuation if an employer's circumstances met the specified criteria. The policy set out the situations where contributions may be reviewed between actuarial valuations and the conditions that must be met. The Chair requested that when the Fund consults with employers on the revised FSS that it is made clear that the new flexibilities are at the discretion of the administering authorities following appropriate engagement and due diligence with relevant parties.

The Head of Pensions Administration responded to Members questions and it was;

Resolved – That the report be noted.

45 **TREASURY MANAGEMENT STRATEGY & REPORT**

The Head of Finance and Risk, Donna Smith, presented a report that requested Members to approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2021/22. Appendix 1 to the report contained the treasury management policy statement.

The report set out the main aims when managing liquid resources that were the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows and an optimal return on investments commensurate with proper levels of security and liquidity. Effective management and the control of risk were prime objectives of the treasury management policy and practices. The report informed that MPF would comply with the twelve treasury management practices set out in the treasury management policy statement.

Resolved – That the treasury management policy statement and the treasury management practices for Merseyside Pension Fund for the financial year 2021/22 be approved.

46 **TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORTING**

The Director of Pensions, Peter Wallach, presented a report that provided Board members with information on the Fund's current arrangements in relation to Taskforce on Climate-related Financial Disclosure (TCFD) requirements. The appendix to the report provided an extract from the Fund's annual report in relation to TCFD reporting. It was anticipated that mandatory reporting requirements would be more stringent.

The report informed that the Fund had been actively developing its approach to the management of climate risk and a number of actions had been taken and implemented over the past five years.

Members were informed that one of the provisions in the recently enacted UK Pensions Schemes Act 2021 was the requirement for trustees to ensure there was effective governance of schemes with respect to the effects of climate change, and to publish information relating to the effects of climate change on the scheme. This provided the legal framework for requiring trustees to make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This applied only to pension funds in the private sector. It was expected that MHCLG would consult on TCFD for the LGPS in the summer of 2021 with reporting required in annual reports from March 2023.

Addressing the systemic challenges of climate risk had been at the forefront of the Fund's responsible investment work. The Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosure (TCFD) provided a global framework to translate non-financial information into financial metrics. The Fund had included a TCFD statement in its previous two annual reports.

The Director highlighted that the TCFD had structured its recommendations around four pillars: Governance, Strategy, Risk Management and Metrics and targets. Members were informed that some of the priority actions suggested for asset owners in the near term included:

Governance: review governance arrangements to ensure there was effective board level oversight and internal management processes were in place to effectively manage the climate-related risks and opportunities.

Strategy: begin the process of analysing portfolio resilience to climate-related scenarios, including 2 degree of less outcome.

Risk management: assess the potential financial materiality of climate-related risks on the investment portfolio and evaluate the actions that needed to be taken to mitigate these risks, as well as capturing new opportunities.

Metrics: measure GHG emissions where data was available or could be reasonably estimated, for each fund or investment strategy.

Engagement: engage with companies and external fund managers, to encourage greater transparency and alignment with the TCFD recommendations.

Disclose: publicly disclose all of the above actions and outcomes in annual reports and the climate risk in PRI's reporting framework.

The Chair of the Pensions Board commended the Fund and the Pension Committee for taking this issue forward and it was;

Resolved – That the report be noted.

47 **MEMBERS' LEARNING & DEVELOPMENT 2021**

The Director of Pensions presented a report that provided Members with an outline of the potential opportunities for learning & development in 2021. Members would be sent invitations nearer to the time of the training events – which to date had been held virtually.

Members discussed a suggestion that it would be useful if each member kept a log of any training that had been undertaken relating to Pensions and other matters e.g., diversity training. The Director Pensions indicated that a record was currently maintained that included participation in training and events suggested by the Fund and agreed that a record of any other training that had been undertaken would be useful and this could be updated every 3 months.

The Chair requested that more emphasis be placed on Pensions Administration training as this was an increasingly complicated area that members of the Board needed to be kept up to date on.

Resolved – That the proposed learning and development plan for 2021 be noted and approved.

48 **CEM BENCHMARKING REPORT**

The Head of Pension Administration, Yvonne Murphy, presented a report that informed that MPF was a founder member of a group of LGPS Funds who had supported the expansion of CEM Benchmarking services from the investment arena into the pension administration functions.

The outcomes of the benchmarking exercise undertaken for the year ending March 2020 was summarised in the Appendix to the report. John Simmonds, Principal of CEM Benchmarking UK, attended the meeting and provided a brief presentation and responded to questions from members.

The report informed that undertaking external assessment was vital to help drive service improvement and assess value for money. The aim was to provide independent assurance on the service the Fund provided by measuring a range of functions and comparing performance to similar organisations and best practice standards; to identify areas of strength and those areas that would benefit from review and improvement.

The Chair of the Pension Board indicated that he welcomed the fact that MPF was taking part in the benchmarking service. He commented that this was a positive report and thanked Mr Simmonds for his coherent and easy to understand presentation.

Resolved – That the report be noted.

49 **MINUTES OF WORKING PARTY MEETINGS**

Members gave consideration to a report of the Director of Pensions 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 exempt minutes be noted.

50 **NON RECOVERY OF PENSION PAYMENTS**

Members gave consideration to a report of the Director of Pensions that provided Members with a copy of the report taken to Pensions Committee. Members were informed that, taking on board a suggestion made at the Pensions Committee, MPF would in future be proactive in informing Fund members who were moving abroad that the Fund would be conducting life existence checks every two years. The Chair indicated that the Pension Board would support this tightening up of policies.

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.

51 **PROPERTY PORTFOLIO RENT ARREARS**

Members gave consideration to a report of the Director of Pensions that provided members with a copy of the report taken to Pensions Committee that had requested that Members agree to the write off of £592,846.07 of unrecoverable rent arrears from the Fund's property portfolio. The report informed that the annual property rental income for 2019/20 was £30.9 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 report be noted.

52 **ADMIN KPI REPORT**

Members gave consideration to a report that provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 October 2020 to 31 December 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.

53 **UPDATE ON TAX MANAGEMENT ARRANGEMENTS**

The Director of Pensions, Peter Wallach, presented a report that provided members with an update on the progress made by the Fund in

- Recovering Withholding Tax (WHT) from UK and European tax authorities.
- Reclaiming tax on Manufactured Overseas Dividends (MOD).

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.

54 **RISK REGISTER**

The Director of Pensions, Peter Wallach, introduced 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.

55 **NORTHERN LGPS UPDATE**

Members gave consideration to a report of the Director of Pensions that provided Board members with an update on pooling arrangements in respect of MPF and the Northern LGPS. Minutes of the previous Joint Committee meeting were appended to the report for noting.

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.

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56 **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.

57 **CEM BENCHMARKING REPORT EXEMPT APPENDIX**

The appendix to the report on CEM Benchmarking was exempt by virtue of paragraph 3.

58 **WORKING PARTY MEETINGS EXEMPT MINUTES**

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

59 **NON RECOVERY OF PENSION PAYMENTS EXEMPT APPENDIX**

The appendix to the report on Non recovery of Pension Payments was exempt by virtue of paragraph 3.

60 **PROPERTY PORTFOLIO RENT ARREARS EXEMPT APPENDIX**

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

61 **ADMIN KPI REPORT EXEMPT APPENDIX**

The appendix to the report on Admin KPI was exempt by virtue of paragraph 3.

62 **UPDATE ON TAX MANAGEMENT ARRANGEMENTS EXEMPT APPENDIX**

The appendix to the report on Update on Tax Management Arrangements was exempt by virtue of paragraph 3.

63 **RISK REGISTER EXEMPT APPENDIX**

The appendix to the report on Risk Register was exempt by virtue of paragraph 3.

64 **NORTHERN LGPS UPDATE EXEMPT MINUTES**

The appendix to the report on Northern LGPS Update was exempt by virtue of paragraph 3.

65 **ADMISSION BODY APPLICATION**

The Head of Pension Administration, Yvonne Murphy, introduced a report that provided Members with a copy of the report taken to Pensions Committee in February regarding the admission of Improvement and Development Agency for Local Government (IDeA) to Merseyside Pension Fund (MPF) as a community admission body.

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.

66 **COUNCILLOR PAT CLEARY**

Councillor Pat Cleary, Chair of the Pensions Committee, attended the meeting and addressed members. He offered his thanks to all members of the Board for their diligence and attention to detail and noted that the meeting had been very interesting. Councillor Cleary referenced the areas of Climate Risk, Training and IMWP meetings commenting that it was pleasing to note that members of the Board had been attending Working Party meetings as observers. He hoped that if the limit on the numbers of observers could be relaxed that more members could be encouraged to attend. Councillor Cleary further commented that the Pensions Committee was impressed by the work done by officers such as the introduction of CEM Benchmarking and noted that the Pensions Committee was grateful for the positive work that Board members do. He concluded by thanking all Board Members for their input in the meeting.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

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

REPORT SUMMARY

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

RECOMMENDATION/S

That Members note the minutes of the Joint Committee meetings.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

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

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 Minutes of the previous Northern LGPS Joint Committee meeting are attached at appendix 1.

4.0 FINANCIAL IMPLICATIONS

3.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

4.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

5.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

6.1 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

7.1 There are none arising directly from this report.

9.0 EQUALITY IMPLICATIONS

8.1 There are no equality implications arising from the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environment and climate implications, nor any other relevant issues arising from this report.

REPORT AUTHOR: **PETER WALLACH**
DIRECTOR OF PENSIONS
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APPENDICES

Minutes of Joint Committee meetings.

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

SUBJECT HISTORY (last 3 years)

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

NORTHERN LGPS JOINT COMMITTEE

4 February 2021

(Meeting held remotely via Zoom Pro platform)

Commenced: 11.00am **Terminated: 12.15pm**

Present:	**Cllr Gerald P Cooney (Chair)**	**Vice Deputy – Greater Manchester Pension Fund**
	Councillor Brenda Warrington	**Chair – Greater Manchester Pension Fund**
	Cllr Andrew Thornton	**Chair - West Yorkshire Pension Fund**
	Councillor Pat Cleary	**Chair – Merseyside Pension Fund**
	Councillor Cherry Povall	**Vice Chair – Merseyside Pension Fund**
	Liz Bailey	**West Yorkshire Pension Fund**
In attendance:		
	Rodney Barton	**Director of Pensions - West Yorkshire Pension Fund**
	Peter Wallach	**Director of Pensions - Merseyside Pension Fund**
	Sandra Stewart	**Director of Pensions, GMPF**
	Euan Miller	**Assistant Director of Pensions, Funding and Business Development, GMPF**
	Tom Harrington	**Assistant Director of Pensions, Investments, GMPF**
	Paddy Dowdall	**Assistant Director of Pensions, Local Investments and Property, GMPF**
	Steven Taylor	**Assistant Director of Pensions, Special Projects, GMPF**
	Neil Cooper	**Head of Pension Investment (Private Markets), GMPF**
	Greg Campbell	**Merseyside Pension Fund**
	Owen Thorne	**Merseyside Pension Fund**
	Colin Standish	**West Yorkshire Pension Fund**
	Debra Hopkins	**West Yorkshire Pension Fund**
	Joanna Wilkinson	**West Yorkshire Pension Fund**
	Alan McDougall	**PIRC**
	Janice Hayward	**PIRC**
	Tom Powdrill	**PIRC**
	Conor Constable	**PIRC**
	Phil McCloy	**Northern Trust**
	Claire Misata	**Northern Trust**

24. DECLARATIONS OF INTEREST

There were no declarations of interest declared by Members.

25. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 1 October 2020 were agreed as a correct record.

26. POOLING UPDATE

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, GMPF, providing an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

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

As per discussion at previous meetings, the draft statutory guidance had blurred the original four criteria in the 2015 guidance. In its place the guidance has 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.

On 25 November 2020 Government set out a commitment to consult on strengthening the framework for pooling in the Balance Sheet Review (published alongside the Spending Review) at https://www.gov.uk/government/publications/the-balance-sheet-review-report-improving-publicsector-balance-sheet-management, (pages 34-35). This referred to stronger governance, improved reporting, and greater transparency on investment performance, including benchmarking against UK and international comparators.

The Balance Sheet Review referred to pools having made cumulative savings of £300m by September 2020. Northern LGPS' understanding from discussions with MHCLG was that costs of £270m had been incurred in generating these savings, creating a net saving of £30m. Northern LGPS' net saving was approximately £40m.

MHCLG had also issued the slides (attached as Appendix 1 to the report), to the LGPS pools, which indicated that a new consultation on pooling guidance and potentially changes to the LGPS Investment Regulations was expected sometime later in the year. MHCLG civil servants had also been working with the Chair of the Client-side Cross-Pool Group to produce a questionnaire to be completed by funds to help MHCLG draft new guidance and/or regulations. To date, this was yet to be issued.

MHCLG stated in their slides that "*around £300m in savings to date largely from lower investment and custody costs due to greater scale (£30m net)*". Northern LGPS submitted an update report which provided that, total savings, net of costs, as at 31 March 2020 were £40.64m (as detailed in Appendix 2 to the report).

Updates on the progress of the main ongoing workstreams for the Northern LGPS together with LGPS Pooling developments nationally provided in the report.

RESOLVED
That the content of the report be noted, in particular, the references to LGPS pooling in the Government's Balance Sheet Review.

27. UPDATE FROM THE COMMON CUSTODIAN

Phil McCloy and Claire Misata, representatives of Northern Trust, presented an update on the key milestones, deliverables and high level KPIs applicable to their appointment as the common custodian to the Northern LGPS pool.

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

28. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING

The Assistant Director of Pensions Investments, GMPF, submitted a report providing members of the Committee with an update on investment management cost benchmarking for 2019/20.

Analysis of the interim 2019/20 data indicated that the Northern LGPS remained low cost and was below the median (average) cost of its peer group (which consisted of 21 global pension funds (inclusive of Northern LGPS) ranging from £12.7 billion to £90.7 billion.

In 2014/15, CEM calculated Northern LGPS' benchmarked costs to be 0.35%. Average Pool value of £29 billion). The Northern LGPS' costs increased to 0.39% in 2019/20 reflecting the increasing diversification of the underlying funds.

When adjusting for the increase in assets and changes in strategic asset allocation over the last six years, CEM calculated that Northern LGPS' like for like costs would be 0.50% in 2019/20. On this basis, Northern LGPS had generated underlying savings of 0.11%.

CEM had also benchmarked Northern LGPS' costs against a peer group of 21 relatively similar sized global funds (including 1 other large UK LGPS fund and 3 other LGPS pools (based on the data submitted by the pools and available to CEM). The peer group actual cost was 0.42%. To calculate the benchmark cost, CEM apply peer median costs at an asset class level to the Northern LGPS' asset mix. The benchmark cost in 2019/20 was 0.40%. On this basis, the Northern LGPS was 0.02% lower cost than the benchmark.

RESOLVED
That the content of the report be noted.

29. PERFORMANCE MEASUREMENT

The Assistant Director of Pensions Investments, GMPF, submitted a report providing Members of the Northern LGPS Joint Committee with an update on performance measurement.

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

Details of Northern LGPS reporting for periods to 30 September 2020 was attached as an appendix to the report. It was explained that the reporting would assist in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

It was noted that Officers continued to work closely with Portfolio Evaluation to separately identify NPEP and GLIL returns, given their importance to the Northern LGPS proposition.

RESOLVED
That the content of the report be noted.

30. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report of the Assistant Director of Pensions Investments, GMPF, explaining that the Northern LGPS Pool Responsible Investment policy was adopted in January 2019 (a link to the policy was provided in the report). Committee Members were informed that the Responsible Investment advisor would review the policy and prepare a revised draft for consideration at the next meeting of the Joint Committee, in particular the thematic aspects of the policy would be reaffirmed and/or refreshed.

Members were further informed that each of the three underlying Northern LGPS Funds were members of the Institutional Investor Group on Climate Change (IIGCC). The IIGCC had recently invited all members to become signatories to a Net Zero commitment statement (attached as Appendix B to the report). It was noted that GMPF was minded to become a signatory and the Committee discussed West Yorkshire and Merseyside Pension Funds' individual position on this matter in order to facilitate the Northern LGPS Pool becoming a signatory.

Tom Powdrill, PIRC Ltd., Responsible Investment advisor to the Northern LGPS, then provided an update on their Responsible Investment activity during the quarter and presented their Quarterly Stewardship Report, a copy of which was appended to the report.

Discussion ensued in respect of the content of the reports and presentation, in particular, the review of the Responsible Investment policy and members highlighted recent communications from the Palestine Solidarity Campaign and the need to consider human rights issues within the next iteration of the Responsible Investment policy.

RESOLVED (i) That the content of the latest quarterly Responsible Investment report be noted; (ii) That the Responsible Investment advisor bring an updated draft of the Responsible Investment policy to the next meeting for endorsement by the Joint Committee, having regard to the discussion in the meeting in respect of human rights issues; and
(iii) That the Northern LGPS Pool become a signatory to the IIGCC Net Zero commitment statement.

31. MERSEYSIDE PENSION FUND – PROPOSALS TO REVISE INVESTMENT STRATEGY

The Director of Pensions, Merseyside Pension Fund, submitted a report explaining that, at MPF's Pensions Committee meeting in November 2020, Committee instructed officers to develop and implement the investment strategy proposals outlined in report to that Committee. In the report (attached as Appendix 1 to the report), Aon, MPF's advisers, suggested ways in which fund governance could be simplified, returns enhanced without a commensurate increase in risk and recommended consideration of additional assets and investment products that delivered these objectives with an emphasis on sustainability.

The Committee was advised that, amongst other things, this would require an investment manager selection/procurement exercise, which would be conducted in accordance with the NLGPS inter-authority operating agreement.

RESOLVED
That the content of the report be noted.

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32. UPDATE ON THE SCHEME ADVISORY BOARD'S INVESTMENT, GOVERNANCE AND ENGAGEMENT SUB-COMMITTEE

The Director of Pensions, MPF, submitted a report explaining that the Investment, Governance and Engagement Sub-Committee was established by the Scheme Advisory Board and the Directors of the West Yorkshire and Merseyside Pension Funds were members of the sub-committee.

It was also mentioned that the Shadow Advisory Body had invited the Director of GMPF to chair the new Responsible Investment Advisory Group (RIAG), which would report to the Investment, Governance and Engagement Sub-Committee.

An update of the sub-committee meetings held on 12 October 2020 and 18 January 2021 was provided.

RESOLVED
That the content of the report be noted.

33. DIRECT INFRASTRUCTURE PLATFORM (GLIL) UPDATE

The Assistant Director of Pensions, Local Investments and Property, GMPF, updated members on progress with the Northern Pool's direct infrastructure investment platform (GLIL).

The latest quarterly report for GLIL to September 2020 was appended to the report. The priorities for GLIL over the next quarter and 12 months were detailed and discussed.

RESOLVED
That the content of the report be noted.

34. HOUSING INVESTMENT: APPROVAL OF COLLECTIVE INVESTMENT IN PGIM

Consideration was given to a report of the Assistant Director, Local Investment and Property, GMPF, providing information of collective investment of £150m into PGIM UK Real Estate UK Affordable Housing Fund.

It was reported to the Committee on 1 October 2020 that; following completion of the due diligence, the 3 Directors of Northern LGPS agreed at a meeting on 14 September, to make a collective investment into PGIM UK Real Estate UK Affordable Housing Fund split as follows: £100m GMPF, £25m each WYPF and MPF. The final implementation was subject to any procedures required for execution of delegated authority by the 3 Fund Directors of Northern LGPS.

It was explained that the implementation was now complete, and the fund had its first close in December 2020 with Northern LGPS acting as cornerstone investors.

The income-focused UK Affordable Housing Fund targeted a stable total return of 6-9% per annum, net of fees and costs, by investing in and developing affordable homes for working people and families across the UK.

Officers were particularly impressed with the fund's ESG credentials, both in terms of its ambitions of creating high quality sustainable homes and the social impact that would be achieved. The fund had a strong pipeline of opportunities across the UK including a number of significant schemes within the Northern LGPS geographical area.

Officers were reviewing further investment opportunities in other fund products and strategies tailored towards affordable housing.

RESOLVED
That the content of the report be noted.

35. PROPERTY FRAMEWORK

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, GMPF, updating Members on the procurement exercise for a Property Management Framework.

It was reported that the framework was now complete and available for use. The details of the lots were contained in Appendix 1 to the report, which were the minutes of a Directors' meeting to confirm the appointments to the framework.

RESOLVED
That the content of the report be noted.

CHAIR

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WIRRAL

PENSIONS COMMITTEE

22 JUNE 2021

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

REPORT SUMMARY

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

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the minutes.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Appendix 1 Working Party minutes

BACKGROUND PAPERS

GRWP reports pack

SUBJECT HISTORY (last 3 years)

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

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Minutes of the Governance and Risk Working Party, Wednesday 14 April 2021

Present:

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Councillor Tony Jones	TJ	WBC
Councillor Brian Kenny	BK	WBC
Councillor Cherry Povall	CP	WBC
Councillor George Davies	BK	WBC
Councillor Chris Carubia	CC	WBC
Councillor Martin Bond	MB	St Helen's Council
Roger Bannister	RB	Co-Optee
Councillor Les Rowlands	LR	WBC
Councillor Andrew Gardner	AG	WBC
Councillor Jayne Aston	JA	Knowsley Council
Peter Wallach	PW	Director of MPF
Donna Smith	DS	Head of Finance & Risk
Guy Hayton	GH	

Apologies were received from:

Name	Initials	Organisation
Yvonne Murphy	YM	Head of Pensions Administration
Councillor Paulette Lappin	PL	Sefton Council

In attendance: Emma Jones.

1. Approval of Minutes

Minutes of GRWP, dated Monday 21 September 2020 were noted.

2. Declarations of Interest

It has been agreed that Declarations of Interest are an annual declaration at the beginning of the Municipal year.

Noting/Action points

Noted.

3. Business Plan

PW reported that the Fund prepares a business plan in conjunction with the corporate planning cycle. The Business Plan is a core component of the Fund's objective setting and risk management framework and is brought to Pensions Committee on an annual basis. It covers the main service areas, projects and procurement activities for the forthcoming year, resource requirements and any contingencies.

In its budget setting process, the Fund makes provision for the resources it believes will be required to deliver the services and activities outlined in this Plan.

PW informed Members that the Fund is aiming to continue its investment in digital services and integrated systems as IT is central to what the fund wishes to achieve. PW noted the hard work of the staff at the Fund.

PW ran through the key priorities which have been identified over the next few years, some of which are statutory requirements and others which are priorities for the Pension Fund objectives. PW advised that risks are identified and are captured in the Risk Register.

It was discussed that, for example, the McCloud Remedy puts a greater strain on staff resources and whether there were any plans to increase recruitment around the additional requirements. PW advised that the Fund's aim is to improve efficiency through automation and digital services. However, the Fund will need to increase recruitment some of which will enable costs to be reduced further by bringing additional assets in house.

It was discussed that the ratio of staff is predominantly female. PW advised that as the Fund has flexible working arrangements this may facilitate the type of workforce the fund attracts.

Noting/Action Points

The report was duly noted.

4. Benchmarking Report

GH reported that MPF is a founding member of a group of LGPS Funds who have supported the expansion of CEM Benchmarking services from the investment arena into the pension administration functions.

The outcomes of the benchmarking exercise undertaken for the year ending March 2020 is summarised in the Appendix which was attached to the report.

GH advised that the benchmarking of LGPS administration services has always been fraught with difficulty due to the subjective nature of some assessments and differences in the way in which services are delivered. In 2019, MPF joined with seven other local government funds to support the expansion of CEM services as it provides rigour and context to the benchmarking of pensions administration services and functions.

GH reported that the benchmarking report compares headline costs and the levels of service across a peer group of schemes, but also takes a broader look at how services are delivered and provides a measure of value added. Overall and in general, key drivers of lower cost include third party fees, spending less per member on IT and direct costs such as accommodation.

GH reported that, overall, the Fund's member service score had improved from 2018/19 and the Fund was identified by CEM as offering high member service at a low cost. The Fund saw an improvement as it reported a higher volume of face-to-face support to Members via the counter service, had direct access to knowledgeable administrators when telephoning, provided tailored information in response to member telephone enquiries and the average turnaround times were generally faster.

CP congratulated the Fund on the considerably lower costs compared to other local pension funds. PC advised that he had attended a Pension Board meeting where CEM presented and who were very complimentary of MPF.

<u>Noting/Action Points</u>

The report was duly noted.

5. Administration KPI Report

GH reported that Members are provided with a copy of the most recent Pensions Administration KPI report which is taken to the Pension Board on a quarterly basis. GH went through the report page by page identifying the most salient points in order to give an idea of outstanding items and the operational aspects of pension administration.

Case work was discussed and the potential impact it has on members when dealing with particular cases. MB made particular reference to the length of time taken for death cases that fall outside of the target - due to pastoral concerns. GH could not comment about any individual cases in the meeting. [post meeting action: PW contacted MB to identify the deceased individual and provided an explanation for the delay in processing the beneficiary payments. A review of the process has also been undertaken].

Apps were discussed and how they could be introduced to gain easier access to members' pension information. The issues were discussed and why the Fund has not pursued the development of an app. GH advised on the national Pensions Dashboard programme which will bring together pension information into one secure online portal for citizens to access, including any private or previous occupational pension entitlements. GH commented that this will become a useful tool for members alongside the 'MyPension' self-service tool in place at Merseyside.

PC asked why the Fund is incurring costs for workshops and what are the reasons behind this. GH explained that the event is one that is arranged every couple of years following the reduction of the Lifetime and Annual Allowance thresholds and the introduction of the 'scheme pays' option where members can elect to have the Fund meet tax charges by having their future benefits reduced in value. Pensions Tax is a complicated area that has an impact on high earners and also members with long service who may receive a more modest promotion. The Fund has to provide Pension Saving Statements to affected members and the Mercer workshop is intended to educate members on the process and to ensure that all information is correct when they engage Independent Financial Advisers. It also reduces staff time spent in dealing with pension tax related queries.

PC stated that he is still not completely clear as to what the benefit is to the Fund in incurring these costs but thanked GH for his explanation. [post meeting action: PW contacted PC to provide some historical background to the workshops and respond to any further questions.]

Noting/Action Points

The report was duly noted.

6. Risk Register

PW reported that risk management is an integral part of the Fund's business planning, policies and procedures. The Fund maintains a register of its principal risks and the controls and measures put in place to manage and mitigate them.

PW reported that it is reviewed on a monthly basis to the Fund Operations Group and formally by Officers every six months. It is a standing item on the agenda for the Local Pension Board and is reported to them on a quarterly basis. The risks included in the register are principally in relation to administrative, financial and operational risks with investment and related actuarial risks addressed in the Funding Strategy Statement and Investment Strategy Statement.

Since the previous report, several changes to risks and risk scores have been made to reflect the effects of CV19 on operations and activities.

Noting/Action Points

The report was duly noted.

7. Gifts & Hospitality/Subsidised Business Events/Overseas Travel

PW reported that the report provides Members with a summary of subsidised business events attended by officers of the Fund, details of gifts and hospitality offered and/or received, and overseas travel undertaken from January 2020 to December 2020.

The report highlighted that in November 2012, Pensions Committee approved new guidance in relation to the declaration of gifts and hospitality received by officers and those Members of Committee that are not otherwise subject to personal conduct arrangements.

The guidance is reflected by Wirral in its overall governance arrangements and is set out in the Fund's Compliance Manual, reflecting the practicalities of the Pension Fund's business needs.

PW asked for the appendix to be noted which provides a schedule of gifts & hospitality declarations from January 2020 to December 2020 and reported that no subsidised business events or overseas travel were undertaken during the period.

It was noted that the sums involved are very modest and PC asked why two were rejected. PW explained that it was due to personal judgment, the value of it and advised it was difficult to justify acceptance. PW clarified that BNY were marketing a product at the time and it was not appropriate to accept the gift in the circumstances.

PC welcomed the fact and that it was made transparent.

Noting/Action Points

Noted.

8. **AOB**

PC thanked Members for their attendance and the Officers for the work involved to compile the reports adding that it provides a lot of reassurance to Members.

Noting/Action Points

Date of Next Meeting

Thursday 23 September 2021.