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WIRRAL

Local Pensions Board

Date:	**Wednesday, 1 December 2021**
Time:	**10.30 a.m.**
Venue:	Microsoft Teams

Contact Officer: Victoria Simpson
Tel: 0151 691 8271
e-mail: victoriasimpson@wirral.gov.uk
Website: http://www.wirral.gov.uk

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

AGENDA

1. WELCOME AND INTRODUCTION

2. APOLOGIES

3. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

4. MINUTES (Pages 1 - 4)

To approve the accuracy of the minutes of the meeting held on 20 September 21.

5. GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND (Pages 5 - 34)

This report highlights the key findings and other matters arising from Grant Thornton's external audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2021.

6. MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2020/21 AND LETTER OF REPRESENTATION (Pages 35 - 138)

7. LOCAL GOVERNMENT PENSION SCHEME UPDATE (Pages 139 - 148)

8. UPDATED INVESTMENT STRATEGY STATEMENT (Pages 149 - 172)

9. NORTHERN LGPS UPDATE (Pages 173 - 182)

10. MINUTES OF WORKING PARTY MEETINGS (Pages 183 - 196)

11. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

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

12. OFFICE WORKING ARRANGEMENTS (Pages 197 - 204)

13. PENSION ADMINISTRATION MONITORING REPORT [PERIOD 1 APR – 30 JUNE 2021] (Pages 205 - 224)

14. RISK REGISTER (Pages 225 - 232)

LOCAL PENSIONS BOARD

Monday, 20 September 2021

Present:	J Raisin (Chair)	
	G Broadhead	S Van Arendsen
	R Dawson	
	D Ridland	
Apologies	L Robinson	
	R Irvine	
	P Maloney	
	P Fieldsend	

16 **WELCOME AND INTRODUCTION**

The Chair welcomed Members of the Local Pension Board and viewing members of the public to the meeting.

17 **APOLOGIES**

Apologies were received from L Robinson, R Irvine, P Maloney

18 **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 the agenda and, if so, to declare them and state what they were.

No such declarations were made.

19 **TWO MINUTES SILENCE**

Mr J Raisin, the Chair of the Local Pensions Board began the meeting by leading a two-minutes silence for Mr Paul Wiggins who had passed away since the last face to face meeting, after previously serving on the Pensions Committee as a Unison representative for many years.

20 **MINUTES**

Resolved - That the accuracy of the minutes of the meeting held on 23 June be approved.

22 **MINUTES OF WORKING PARTY MEETINGS**

The Director of Pensions introduced a report that provided Members with the minutes of meetings of Working Parties held since the last meeting.

Resolved – That the minutes of the Working Party be noted.

23 **NORTHERN LGPS UPDATE**

The Director of Pensions introduced a report that provided Board Members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS. Minutes of the previous Joint Committee meeting were appended for noting along with the draft Responsible Investment (RI) policy that was attached for consideration.

Resolved – That the report be noted

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

25 **MERSEYSIDE PENSION FUND INTERNAL AUDIT ANNUAL REPORT 2020/21**

A report by the Chief Internal Auditor reported on the Internal Audit Service plans. Members of the Local Pensions Board heard how reports, including recommendations produced following audits are presented to Fund managers. Members were then informed that a summary report is produced annually by the Chief Internal Auditor and an overall opinion provided as to the effectiveness of the Fund's control environment.

This report presented the Chief Internal Auditors Annual Report for 2020/21

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

Resolved – That the Merseyside Pension Fund Internal Audit Report 2020/21 be noted.

26 **PENSION ADMINISTRATION MONITORING REPORT [PERIOD 1 APR - 30 JUNE 2021]**

Yvonne Murphy, Head of Pensions Administration, introduced 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 April 2021 to 30 June 2021.

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.

The Head of Pensions Administration responded to questions regarding current and new indicators and how the measures are applied.

Members raised some concerns regarding the apparent impact on the performance of the service from staff continuing to work from home.

Resolved – That

1) the Local Pension Board observed and was concerned at the apparent impact of working from home on performance and requested that a report be brought back to the Local Pensions Board; and

2) having considered the report that the contents be noted.

27 **RISK REGISTER**

The Director of Pensions introduced a report that provided Board Members with a copy of the Fund's Risk Register.

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 having considered the changes to the risk register that the report be noted.

28 **LOCAL GOVERNMENT PENSION SCHEME UPDATE**

A report by the Director of Pensions provided Board Members with a copy of the report on developments in the Local Government Pension Scheme (LGPS) taken to Pensions Committee since the previous Board meeting.

The Head of Pension Administration responded to questions and discussed the impact of the new dashboard system and ongoing work required to ensure that data is ready before 2023.

Resolved – That the report be noted.

WIRRAL COUNCIL

PENSION BOARD

1 DECEMBER 2021

REPORT TITLE:	**GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report highlights the key findings and other matters arising from Grant Thornton's external audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2021. Grant Thornton presented a report to Pensions Committee at its September meeting and an updated report will be considered at Audit & Risk Management Committee at its November meeting.

Subject to the satisfactory completion of the outstanding audit work, Grant Thornton's anticipated audit opinion will be unqualified.

RECOMMENDATION/S

That the Pensions Board be recommended to consider and note the report provided by the external auditor, Grant Thornton.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a statutory requirement to audit the financial statements of Merseyside Pension Fund and to report to those charged with governance, who oversee the financial reporting process.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options were available as there is a statutory requirement for the auditors report to be provided to those charged with governance.

3.0 BACKGROUND INFORMATION

3.1 The Audit Findings Report, prepared by the external auditor, presents the findings and observations arising from the external audit of the Pension Fund accounts.

3.2 External audit are required to report on whether the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and whether the financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting, and the Local Audit and Accountability Act 2014.

3.3 External audit also report on whether other information published together with the audited financial statements, the Fund's Annual Report, is consistent with their knowledge of the organisation and the financial statements they have audited.

4.0 FINANCIAL IMPLICATIONS

4.1 Merseyside Pension Fund is charged a fee for the external audit of the Fund's financial statements, the final fee is £51,249 as detailed within the Grant Thornton report.

5.0 LEGAL IMPLICATIONS

5.1 There is a statutory requirement for the accounts of Merseyside Pension Fund to be subject to external audit.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The external audit provides verification of the Fund's financial statements and the audit approach is risk based.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 An Equality Impact Assessment is not required for this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

REPORT AUTHOR: **Donna Smith**
Head of Finance & Risk
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

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

Merseyside Pension Fund Audit Findings Report 2020/21

BACKGROUND PAPERS

Local Audit and Accountability Act 2014
CIPFA/LASAAC Code of Practice on Local Authority Accounting

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Fund's Audit Findings Report is brought annually to this Board.	**10 November 2020** **17 July 2019** **16 October 2018**

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Grant Thornton

The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2021

3 November 2021

Contents

Your key Grant Thornton team members are:

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

Stuart Basnett
Manager
T 0151 224 7232
E Stuart.H.Bsnett@uk.gt.com

Chris Blakemore
Assistant Manager
T 0161 2146397
E Chris.Blakemore@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 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit was completed remotely during June to October. Our findings are summarised on pages 4 to 16. We have identified one adjustment to the financial statements which has resulted in a £136m increase to the Pension Fund's reported Net Asset position, this is as a result of more up-to-date information now being available. Audit adjustments are detailed in Appendix A. We have not raised any recommendations for management as a result of our audit work completed to date. Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix C] or material changes to the financial statements. However, our audit remains open until the Administering Authority audit is also ready to be signed off. To conclude the audit, we require; • Receipt of signed management representation letter • Review of the final set of signed financial statements • Updating our review of subsequent events to the date of the audit opinion We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, which was communicated to you on 22 June 2021 for any new risks.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

Conclusion

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix C] or material changes to the financial statements. To conclude the audit, we require;

- Receipt of signed management representation letter
- Review of the final set of signed financial statements
- Updating our review of subsequent events to the date of the audit opinion

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 22 June 2021.

We detail in the table to the right our determination of materiality for Merseyside Pension Fund.

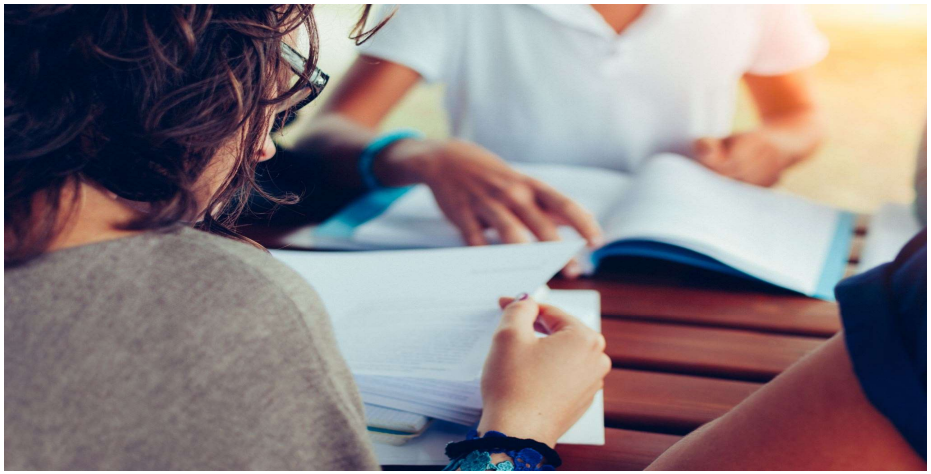
	Amount (£)	Qualitative factors considered
Materiality for the financial statements	87.735m	We have determined materiality for the audit to be £87.735m (equivalent to 0.9% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	65.801m	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	4.386m	This equates to 5% of materiality. This is our reporting threshold to the Pensions Committee and Wirral's Audit & Risk Management Committee for any errors identified.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override 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 have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Our audit work has not identified any issues in respect of management override of controls.**



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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.
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 have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled 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 have evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuation report and the assumptions that underpin the valuation • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our audit work has not identified any significant issues or misstatements. We have gained sufficient appropriate assurance that direct property is fairly stated in the Fund's financial statements.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Area	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	The Pension Fund has investments in unquoted equity and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £2,399m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in. The value of the investments has increased by £338m in 2020-21, largely due significant positive changes in the market value of the investments, primarily as a result of the markets regaining lost growth from 2019-20 as a result of the Covid-19 Pandemic.	Management determine the values of level 3 investments through placing reliance on the expertise of investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts. Management have disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 15 to allow the reader to understand the potential impact on the accounts should the value of those estimates change. Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment.	Dark Purple

Assessment

- Dark Purple We identified a material misstatement with the estimate
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

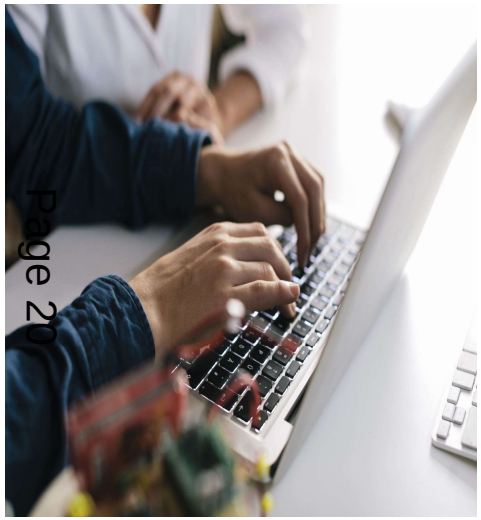
Area	Summary of management's approach	Audit Comments	Assessment
Valuation of Direct Property	The Pension Fund has investments in directly held investment properties that in total are valued on the balance sheet as at 31 March 2021 at £464m. In order to determine the value, management engage independent RICs qualified valuers, Savills, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/21. The value of the investments have decreased by £8m in 2019/20, largely due to the fall in market value of certain assets (£33m), such as retail assets. This fall in value has been offset by a net £25 increase in the direct property holdings as a result of acquisitions in year. Last year's valuation report was prepared on the basis of a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. This is not the case for this years' valuation report as property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the 2020-21 valuation is not be reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.	Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer. As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the property. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon. We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range. As with our prior year audit, we engaged our own auditors expert to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points.	Light Purple
Level 2 investments	The Pension Fund have investments in unquoted bonds, pooled investments and derivatives that in total are valued on the balance sheet as at 31 March 2021 at £2,189m. The Fund also held investment liabilities of £442m as at 31 March 2021. The net position was £1,746m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. The net value of the investments has increased by £77m in 2020/21, largely due to net additions and an increase in market value.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We have also consulted with our specialist valuations team in determining the appropriateness of the valuation of the derivative investments. Our valuations team are performing their own valuation of a sample of the derivatives. The gross variance for the assets is £9.52m and the gross variance on the liabilities is £5.333m. The main reason for the variances is due to differences in the pricing methodologies applied by our internal valuations team and the investment fund manager. Both of the gross variances are below Performance Materiality and so we therefore have assurance that the derivatives valuation estimate in the Fund's accounts is materially correct	Light Purple

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. It is noted that declarations of interest have yet to be received from two members of the Pensions Committee.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which was included separately in the Pensions Committee papers. We have not requested any additional specific representations from management

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the Fund's bankers, custodian and all main mandate fund managers, plus a sample of managers of alternative investments. All confirmations have been received in relation to valuation statements and audited accounts. We did not receive all of the requested controls reports so we have amended our audit response to account for this.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. Minor updates were made to the accounting policies as a result of our review to align them with the most recent requirements detailed in the CIPFA LGPS Example Accounts. For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

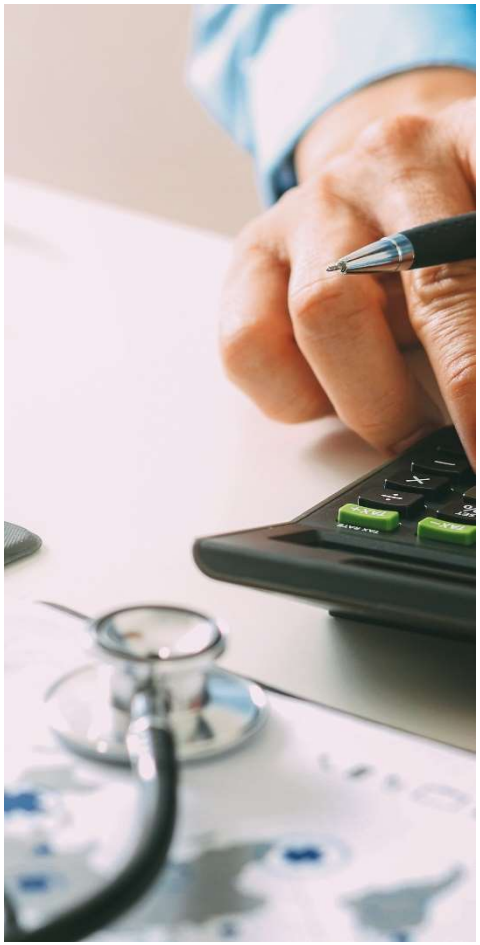
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report with the opinion on the accounts.



3. Independence and ethics

There is one independence issue that we need to report. Chris Blakemore, who is the Assistant Manager working on the audit, has a long association with Merseyside Pension Fund. He has been part of the Pension Fund's audit team for 13 years. His first year involvement in audit was when the audit was undertaken by the Audit Commission but he has remained part of the team in every year since the audit moved to Grant Thornton in 2012. His long association creates a familiarity threat as defined by the FRC's Ethical Standards. To safeguard against this threat, the main day-to-day supervision is at manager level rather than the typical audit in-charge level and, therefore, with the amount of direction from the manager including, for example, sampling approach and selection, would safeguard any familiarity of Chris on this assignment. He is an audit in-charge by level in the department and not his role on this particular audit. We believe that these safeguards sufficiently minimise the independence risk

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

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

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

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£12,250 (£875 for each set of audit procedures - 14 received)	Self-Interest (because this is a recurring fee)	The fee for this work is recurring but not significant compared to the audit of the financial statements of £46,249 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit.
		Self-review	These factors all mitigate the perceived self-interest threat to an acceptable level. The Fund has accrued for a fee of £12,250 for IAS 19 work. The amount to be recharged is to be confirmed but we are satisfied that the amount disclosed in the accounts would only differ from that which would be recharged by an insignificant amount .
		Management	We have not prepared the financial information on which our assurances will be used by the requesting auditor. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management
			We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.
Non-audit Related			
None			

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

Appendices

A. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
Level 3 Investments	£135,920	£135,920	£135,920
Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment.			
Overall impact	£135,920	£135,920	£135,920

A. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Derivatives restatement The Net Asset Statement 2019-20 figures for derivatives have been restated to reflect the fact that they were presented net rather than gross in the prior year accounts. Per the CIPFA Code Para 7.3.2.8 - bodies should disclose the gross value of those recognised financial assets and financial liabilities. The impact of this is that Derivative Contracts on the Net Asset Statement have been increased by £79.2m with a reciprocal increase to Investment Liabilities. This results in a net nil impact overall on the total net assets of the Fund. As part of the work performed by the fund to assess the above amendment, the Fund also reviewed Note 13 of the accounts in line with the PRAG guidance for the presentation of the Investments Reconciliation Table. In line with para 5.7 of the PRAG guidance this table should show derivatives presented net rather than gross "to facilitate reconciliation". Since the 2019-20 table was already presented net there are no changes required for that disclosure. However, the fund has adjusted the 2020-21 disclosure to show the derivatives on a net basis in this note.	Management have amended the accounts to reflect the appropriate reporting requirements.	✓
Note 24 Additional Voluntary Contribution Investments At time of writing the Fund are still awaiting information from third parties in order to finalise the Additional Voluntary Contributions note.	This will be updated for the final version of the accounts.	✓
Key Management Personnel For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits.	We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.	X
Interest & Currency Risk Sensitivity Analysis Per the CIPFA LGPS Example Accounts, a sensitivity analysis is required for each type of market risk to which it is exposed at the reporting date, showing how the Fund Account and Net Asset Statement would have been affected by changes in the relevant risk variable that were reasonably possible at that date. This has not been provided for interest rate risk or currency risk disclosures. Management state "the Fund's main policy for controlling risk is through diversification of asset allocation and therefore when considering risk though exposure to financial instruments the focus is on the volatility of returns from different asset classes and the correlation between asset classes. The Fund's exposure to nominal bonds is very modest. The Fund consider interest rate risk in relation to liabilities and therefore funding level. This is covered by Aon in Investment Monitoring Working Party reports and in the accounts through the actuarial report."	We accept management's response though note the disclosure is not fully in line with CIPFA LGPS Example Accounts requirements.	X
Minor Disclosure improvements Our audit identified a small number of minor disclosures which have been updated to align with the recommended disclosures made in the CIPFA LGPS example accounts: - Amendments made to Investment Manager Costs and Valuation of Investments accounting polices to reflect the latest guidance/requirements per the CIPFA LGPS model accounts - Note 2 has been updated to include reference to Accounting Standards issued but not yet adopted - Minor amendments have been made to improve the readability of the Annual Report - Related Party disclosures for Wirral Council Charges have been updated from £4.0 million. (2019/20 £3.9 million) to £3.9m and (2019/20 £4m).	Management have amended the accounts	✓

A. Audit Adjustments

Impact of unadjusted misstatements

At the time of writing this report, there have been no unadjusted misstatements identified.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit, as reported in our 2019/20 Audit Findings Report to Those Charged with Governance, which had not been made within the final set of 2019/20 financial statements. We are satisfied that this issue has no ongoing impact for the 2020/21 audit.

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

B. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£46,249	£51,249
Total audit fees (excluding VAT)	£46,249	£51,249

Non-audit fees for other services	Proposed fee	Final fee
AS19 Assurance Letters (£875 per letter – 14 expected)	£12,250	£12,250
Total non-audit fees (excluding VAT)	£12,250	£12,250

The proposed fee reconcile to the financial statements.

The additional fees included in the final fee relate to costs associated with engaging our internal valuations team to provide assurance over the valuation of derivatives held by the Fund. The cost of this is £2,000. We also incurred additional costs due to the time spent chasing up Fund Managers to provide us with information requested. The cost of this is £3,000.

PSAA wrote to s.151 officers in August 2021 to inform them of an additional £5.6m of funding being made to local government bodies for the additional costs of 2019/20 external audits. Merseyside Pension Fund will be receiving £5,600 of this allocation.

In addition, the Ministry of Housing, Communities & Local Government is distributing a further £15m in relation to 2020/21 external audit fee costs. Merseyside Pension Fund is due to receive £14,640 of this allocation.

C. Draft Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

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

Opinion

We have audited the financial statements of Merseyside Pension Fund (the 'Pension Fund') administered by Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

C. Draft Audit opinion

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

C. Draft Audit opinion

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

• We enquired of senior officers and the Pensions Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Pensions Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Trust's financial position, as well as any journals made by infrequent posters or senior management personnel

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on manually posted journals such as accruals, journals posted which have a significant impact on the financial position, journals which were posted by infrequent or unusual users, journals posted after the year-end, journals which are individually material, and any journals posted by senior financial reporting personnel;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property.

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

C. Draft Audit opinion

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

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

[Signature]

Andrew Smith, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

[Date]

Grant Thornton

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WIRRAL COUNCIL

LOCAL PENSIONS BOARD

1 DECEMBER 2021

REPORT TITLE:	**MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2020/21 AND LETTER OF REPRESENTATION**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board Members with a copy of the report taken to Pensions Committee in September presenting:

- Annual Report & Accounts for Merseyside Pension Fund for 2020/21
- A letter of representation prepared by Officers on behalf of the Committee.

RECOMMENDATION

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a statutory requirement for the Fund to produce and publish an annual report for the year to 31 March by 1 December of that year and for Members of the Board to satisfy themselves that due process has been followed.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options as there is a statutory requirement for the Fund to produce and publish an annual report for the year to 31 March and for Members of the Board to satisfy themselves that due process has been followed.

3.0 BACKGROUND INFORMATION

3.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2021 in accordance with prescribed guidance.

4.0 FINANCIAL IMPLICATIONS

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

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report. Any indirect implications for the Fund are set out in the accompanying report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the Fund's Statement of Accounts and accompanying documents.

7.0 RELEVANT RISKS

7.1 MPF is one of the largest local government pension schemes with assets of around £10bn. The annual audit of fund provides assurance as to the valuation and title of those assets, to those charged with governance. A failure to fulfil its statutory requirements would bring significant financial and reputational risks to the administering authority.

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in the accompanying report.

9.0 **EQUALITY IMPLICATIONS**

9.1 The relevant implications are set out in the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

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

APPENDICES

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

Report to Pensions Committee September 2021
Annual Report & Accounts.
Letter of Representation

BACKGROUND PAPERS

The Public Service Pensions Act 2013
LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
The Fund's Statement of Accounts is brought annually to this Board.	**10 November 2020** **17 July 2019** **16 October 2018**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

20 SEPTEMBER 2021

REPORT TITLE:	**MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2020/21 AND LETTER OF REPRESENTATION**
REPORT OF:	**DIRECTOR OF RESOURCES (S151)**

REPORT SUMMARY

The purpose of this report is to present to Members:

- Annual Report & Accounts for Merseyside Pension Fund for 2020/21
- A letter of representation prepared by Officers on behalf of the Committee.

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year end. The Fund's financial position for the year ended 31 March 2021 is reported as £10.1bn.

The primary reporting publication for the Fund's Statement of Accounts is part of Wirral Council's Accounts, as the Administrating Authority. The LGPS Regulations require the Fund's financial statements to also be published within the Fund's statutory Annual Report.

The accounts were prepared and submitted for external audit on 1 July 2021. The external auditors, Grant Thornton, subject to outstanding work, has indicated there will be an unqualified opinion. The audit work has identified an adjustment to the financial statements' financial position, due to more up to date information being available during the course of the audit. At the time of writing this report, the Fund has agreed to all material adjustments and there are no recommendations; a verbal update at the meeting will be provided.

The Audit Opinion will be issued following final completion of the audit, consideration of the Audit Findings Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee. Subject to this, the accounts will form the basis of the Annual Report for the year ended 31 March 2021.

A Letter of Representation on behalf of the Committee has been prepared, which gives assurances to the Auditor on various aspects relating to the Pension Fund.

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the audited Statement of Accounts for 2020/21, considers the amendments to the accounts, the Audit Findings Report and the Letter of Representation.

That the Pensions Committee be recommended to refer the recommendations above to the Audit and Risk Management Committee.

That the Pensions Committee be recommended to approve the Annual Report of Merseyside Pension Fund for 2020/21 for publication.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 As required by International Standard on Auditing and the Code of Audit Practice, the Auditor reports its findings on the audit of the Pension Fund Financial Statements to those charged with governance.

1.2 As the Pension Fund receives a separate Audit Findings Report, this report will first be considered by Pensions Committee, and then by Audit and Risk Management Committee.

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

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options as this is a statutory requirement.

3.0 BACKGROUND INFORMATION

3.1 The primary reporting publication for the Fund's Statement of Accounts is part of Wirral Council's Accounts, as the Administrating Authority. The LGPS Regulations require the Fund's financial statements to also be published within the Fund's statutory Annual Report.

3.2 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2021 in accordance with prescribed guidance.

3.3 The Statement of Accounts, including notes were prepared and available for audit by 1 July 2021, one month ahead of the statutory deadline for 2020/21 reporting. The Fund's Annual Report was available for audit during August.

3.4 Grant Thornton's audit work of the accounts is ongoing, and the Audit Findings Report is on this agenda. They may provide a verbal update at the meeting on the report and officers will respond if necessary.

3.5 The audit work has identified an adjustment to the financial statements' financial position, due to more up to date valuations being available during the course of the audit for private market assets. Audit testing of level 3 assets identified a sizable difference in the valuation used in the production of the accounts and the valuation now available, for one investment. In discussion with the auditor and recognising the risk of a material difference being identified as further work continued, officers agreed to review valuations of all private market assets to assess whether more up to date valuations were now available. The financial statements have now been updated with the latest available information for private market assets as of 31 March 2021 and the overall value has increased by £135.9m.

3.6 The audit work identified an adjustment to the reporting of derivatives, there was no change to the overall financial position.

3.7 The Additional Voluntary Contributions disclosure note (note 24), is incomplete, this is due to the Fund still waiting for information from one AVC provider and will be updated as soon as it becomes available.

3.8 A small number of disclosure adjustments, to improve the presentation of the financial statements and annual report, have been agreed.

3.9 A Letter of Representation on behalf of the Committee has been prepared, which gives assurances to the Auditor on various aspects relating to the Pension Fund.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 There is a legal requirement to prepare and approve the statement of accounts under Regulation 57 of The Local Government Pension Scheme Regulations 2013 and The Accounts and Audit Regulations 2015.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 MPF is one of the largest local government pension schemes with assets of around £10bn. The annual audit of fund provides assurance as to the valuation and title of those assets, to those charged with governance. A failure to fulfil its statutory requirements would bring significant financial and reputational risks to the administering authority.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Fund's statement of accounts form part of Wirral Council's accounts and where available for public inspection.

9.0 EQUALITY IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?
(b) No because there is no relevance to equality.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

REPORT AUTHOR: **Donna Smith**
Head of Finance & Risk
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

1. Annual Report & Accounts.
2. Letter of Representation

BACKGROUND PAPERS

The Fund's Statement of Accounts
Cipfa The Code of Practice for Local Authority Accounting in the UK 2020/21
Grant Thornton Audit Findings Report
Cipfa Guidance for LGPS – Preparing the Annual Report (2019)

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Fund's Statement of Accounts are brought annually to this Committee.	**2 November 2020** **16 July 2019** **16 July 2018**

WIRRAL

Shaer Halewood
Director of Resources
PO Box 290,
Brighton Street,
Wallasey,
Wirral,
CH27 9FQ.

to Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

date XX XXXXXXXX 2021

my ref

Dear Sirs

Merseyside Pension Fund
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include level 2 and 3 investments and directly held investment properties. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures

are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. The prior period adjustments disclosed in Note 2 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

   a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
   c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Pensions Committee at its meeting on 20 September 2021 and Wirral Council's Audit & Risk Management Committee at its meeting on 30 November 2021.

Yours faithfully

Name Shaer Halewood …….
Position Director of Resources (S151).
Date

Name…….
Position Chair of Audit & Risk Committee .
Date

Signed on behalf of **Wirral Council** as administering body of **Merseyside Pension Fund.**

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Merseyside
PENSION FUND

Merseyside Pension Fund Report & Accounts 2020/21

Contents

Management Structure At 31 March 2021

Administering Authority
Wirral Council

Pension Fund Management Committee
Chair:

Cllr Pat Cleary	**Wirral**

Vice Chair:

Cllr Cherry Povall, JP	**Wirral**
Cllr Chris Carubia	**Wirral**
Cllr George Davies	**Wirral**
Cllr Steve Foulkes	**Wirral**
Cllr Andrew Gardner	**Wirral**
Cllr Adrian Jones	**Wirral**
Cllr Tony Jones	**Wirral**
Cllr Brian Kenny	**Wirral**
Cllr Les Rowlands	**Wirral**
Cllr Jayne Aston	**Knowsley**
Cllr Ian Byrne	**Liverpool**
Cllr Pauline Lappin	**Sefton**
Cllr Michael Bond	**St Helens**

Employee Representatives (Non-voting)

Roger Bannister	**UNISON**

Officers of the Fund

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

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

Local Pension Board
Independent Chair:
John Raisin

Employer Representatives:

Geoff Broadhead	**Merseyside Police**
Peter Fieldsend	**Torus 62 Ltd**
Lynn Robinson	**St Helens College**
Stephan Van Arendsen	**Sefton MBC**

Member Representatives:

Roger Irvine	**Active Members**
Donna Ridland	**Active Members**
Patrick Moloney	**Deferred Members**

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

Others
Auditor
Grant Thornton

Bankers
Lloyds Banking Group

Consultant Actuary
Mercer HR Consulting

Strategic Investment Consultant
Aon Hewitt

Custodian of Assets
Northern Trust

Responsible Investment Advisors
Pensions and Investment Research Consultants Ltd

Property Advisors
CBRE Capital Advisors

Property Managers
CBRE Asset Services

Property Valuers
Savills

Performance Measurement
Northern Trust

Solicitor
Wirral Council

AVC Providers
Utmost Life
Standard Life
Prudential

LGPS Investment Pool
Northern LGPS (with GMPF and WYPF)

Chair's Introduction

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2021. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months, as well as providing general information regarding the pension scheme.

The Overall Aim of the Fund

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

Investments and Performance

The COVID-19 pandemic has had a significant effect on the Fund, its stakeholders and its ways of working. In line with Government policy, from March 2020, Fund staff moved to working from home in most instances with a small number attending the office on a regular basis to fulfil operational requirements and maintain systems. To the greatest possible extent, we maintained the full range of pension fund services albeit remotely. It has been challenging to adapt to new ways of working with the added pressures of remote working, coping with Covid restrictions, home schooling and more. Rigorous efforts have been made to minimise the detrimental impact on customer service from such changes and upheaval. With the need to manage business priorities, we are conscious that we have been less responsive in some areas than we would wish and are working to get things back on an even keel as soon as reasonably possible.

Last year's report was written at a time when asset markets were starting to rebound strongly, as unprecedented liquidity injections were provided by major central banks and huge fiscal support from governments. This support was sustained throughout 2020 as the relaxation of COVID-19 restrictions over the summer were reversed with further lockdowns in the UK and in many other countries. The positive fillip to markets from the successful development of more than one vaccine meant that financial markets finished very positively. For the twelve months, the Fund increased in value by over 15% even allowing for the £350m disbursed in pension payments.

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

We continue to make good progress on sustainability matters. As part of the Fund's triennial valuation, a more detailed review of investment strategy and asset allocation was undertaken which, for the first time, incorporated the consideration of climate risk through climate scenario modelling. In the light of the climate risk scenario analysis, and with Pension Committee's support and agreement, the Fund has been developing its climate risk strategy to ensure the resilience of its broader investment strategy over short, medium and longer time horizons. The Fund's climate risk strategy has been developed with the understanding that this implies rapid transition to a low carbon economy which, in terms of the Fund's investment portfolio, requires that we mitigate our risk (by seeking to reduce the carbon emissions associated with the portfolio) and allocate investment to climate solutions. This has led us down the path of decarbonisation, whereby we have identified our carbon exposures and implemented measures to reduce exposure (including using a low carbon index in our passive portfolio, as well as very actively engaging with portfolio companies to move them onto credible emissions reduction pathways e.g. through the Climate Action 100+ initiative); and actively investing in low carbon economy assets (such as renewable energy projects) through our infrastructure portfolio.

Consistent with this objective, the Fund continues to deploy capital at scale into renewable energy, primarily through its investments in Infrastructure and has over £250m invested in wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

The Fund is also dealing with a raft of regulatory and statutory changes that need to be managed and implemented. These are covered in more detail in the Scheme Administration Report but include the McCloud remedy, the UK Pensions Act 2021 and its requirements in relation to Pension Dashboards, Climate Risk Reporting, Limiting Transfer Rights, the Good Governance report and the Pension Regulator's single code. Although the £95k cap on exit payments was short-lived, it is expected to reappear in a new guise later this year.

We are starting preparation for the next actuarial valuation which will be 31 March 2022.

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

Communication with Fund Employers and Members

The pandemic has reinforced how important it is to communicate effectively the issues arising from new legislation and the ever-evolving Scheme. We are encouraging greater use of electronic media to enhance security and efficiency of information exchange. We continue to update the Fund's website and maintain communications with our members and former members, producing annual benefit statements and our annual pensioner newsletter.

Past Changes and the Future

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

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

We continue to seek suitable local opportunities for investment. At present, we are providing funding of around £35m to three investments which will support the regeneration of the City Region with positive environmental and social impacts. We are also signatories to the Homelessness Charter; a collaborative arrangement with local businesses to alleviate homelessness on Merseyside.

Our internal investment management capabilities continue to develop which has enabled us to fund an internally managed equity portfolio investing in the Pacific Basin region. We see this trend continuing to deliver cost savings and efficiencies.

As we look ahead, it seems increasingly likely that the lockdown restrictions will be soon behind us, but its longer-term effects will not be, and it remains to be seen which changes will become permanent.

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

Preparation of Report

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

Councillor Pat Cleary
Chair, Pensions Committee
June 2021

Management Report

Management of the Fund

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

In 2020/21, the Committee comprised Councillors from the Wirral Labour group (4), Conservatives (3), Green Party (1), Liberal Democrats (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton) and employee representatives (3). The Director of Pensions and other officers of the Fund also attend Committee, which meets around four times a year to review the administrative and investment issues affecting the Fund.

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

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

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

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern LGPS ('the Pool') in order to meet the criteria for pooling investments set by Government. The Northern LGPS Joint Committee is created via the approval of an inter-authority agreement between the administering authorities to the participating funds. The role of the Joint Committee is to provide monitoring and oversight of the Northern LGPS to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocation decisions, monitoring performance, risk and costs.

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

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

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

Risk Management

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

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

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

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

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

In addition, the Fund maintains a risk register and a compliance manual for its employees. These documents are all subject to regular scrutiny by Pensions Committee and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually by the Fund's external and internal auditors.

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

Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities assigned to them. It therefore seeks to appoint individuals who are both capable and experienced and provides/arranges training for staff and members of the Pensions Committee, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.
Our training plan sets out how we intend the necessary pension finance knowledge and skills are acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

Activity in Year

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

Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by regular working parties. The IMWP includes presentations from professional advisors covering all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The GRWP enables matters relating to other risks, governance and pensions administration to be covered in greater depth.

This year, the Fund has been working with its advisors on Fund governance and benchmarking. Members have received a number of briefings on the Scheme Advisory Board's Good Governance report and a presentation on the CEM Benchmarking report in relation to the effectiveness of the Fund's Pensions Administration Service.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed in ***Appendix B - Pensions Committee Items.*** With the restrictions arising from Covid 19, training has been virtual.

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

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

Month	Event
May	PLSA LGPS Conference
June	LGE Trustee Training
October	PLSA Annual Conference
Oct-Dec	Fundamentals Training
December	LAPFF Annual conference
January	LGPS Governance Conference
March	LGC Investment Seminar

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

Pension Board Report

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

Statement of Purpose for the Merseyside Local Pension Board

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

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

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

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

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

Constitution/Management Arrangements

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

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

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

Executive Summary

The COVID-19 pandemic has had a significant effect on the Fund and its ways of working. From March 2020, staff moved to working from home in most instances with a small number attending the office on a regular basis to fulfil operational requirements and maintain systems. Rigorous efforts have been made to minimise the detrimental impact on customer service from such an upheaval and the Board has worked with officers to provide Wirral Council with additional assurance regarding the security and efficacy of the Fund's new operating arrangements.

As evidenced in the Board's work plan, the Fund is facing a raft of regulatory and statutory developments and the Board has played its part in reviewing and commenting on these proposals and their implications for stakeholders. In particular, the Restriction of Public Sector Exit Payments, Change to the Local Valuation Cycle, McCloud Remedy and the Scheme Advisory Board's Good Governance Review.

The Chair made a presentation on the Board's activities to Pensions Committee which was well received.

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

Board Changes

There were no Board changes.

Issues considered by the Pension Board 2020 - 2021

Agenda Item	8 Jun*	14 Sep	10 Nov	31 Mar
LGPS Update	•	•	•	•
Investment Pooling Update	•		•	•
CEM (Pensions Administration) Benchmarking	•			•
Pensions Administration Report		•	•	•
Working Party (IMWP/GRWP) Minutes	•	•	•	•
Risk Register	•	•	•	•
External Audit Update & Report for 2019-20	•		•	
Employer Covenant Analysis	•			
Supreme Court Ruling (re LGPS April 2020)	•			
Proposed 'McCloud' Remedy & LGPS Consultation		•	•	
Investment Performance 2019-20		•		
RPI Consultation Response		•		
Pension Board Revised Terms of Reference		•		
Pension Fund Business Plan		•		
Internal Audit Report 2019-20 & Plan 2020-21		•		
Pension Board Review 2019-20 & Plan 2020-21		•		
National LGPS Knowledge Assessment		•		
Fund Annual Report and Accounts 2019-20			•	
Investment Strategy Review			•	
Pension Fund Budget 2021-22				•
FSS Policy Updates				•
Treasury Management Policy/Practices 2021-22				•
TCFD Reporting				•
Members Learning & Development				•
Non-Recovery of Pension Payments				•
Property Portfolio Rent Arrears				•
Tax Management Arrangements				•
Admission Body Application				•

** Briefing as no Wirral Council approved arrangement, as at early June 2020, to hold formal Board meetings remotely.*

A work plan for 2021/22 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies.

Pension Board Work Plan 2021 - 2022

Agenda Item	23 Jun	20 Sep	1 Dec	24 Feb
Administration KPI report	•	•	•	•
Appointment of Independent Chair	•			
Audit Findings Report		•		
Audit Plan	•			
Bond Review and Interaction with Covenant	•			
Budget 22/23				•
Budget Outturn 20/21 & Final Budget 21/22	•			
Catalyst Fund update				•
Compliance Manual				•
Complaints Policy				•
CEM Benchmarking report		•		
Draft Statement of Accounts and Report & Accounts 20/21		•		
Draft Pension Board Report	•			
Good Governance Project			•	
Internal Audit Report		•		
Investment Strategy Statement			•	
LGPS update	•	•	•	•
Member Learning & Development Programme				•
Northern LGPS update	•	•	•	•
Pooling Consultation			•	
Risk Register	•	•	•	•
Statement of Accounts - Questions to Management	•			
Treasury Management Strategy & Annual Report				•
Working Party minutes	•	•	•	•
Write-off of Property Arrears/Pension Overpayments				•

Pension Board Attendance Record 2019-20

PENSION BOARD	DATE OF APPOINTMENT/ DECLARATION OF INTEREST	BRIEFING	PENSION BOARD MEETINGS 2020 - 2021			
		8 JUN	10 NOV	5 FEB	5 FEB	31 MAR 2020
John Raisin (Chair)	11 March 2015	•	•	•	•	•
Geoff Broadhead	13 March 2015	•	•	•	•	•
Donna Ridland	12 March 2015	•	•	•	•	•
Roger Irvine	27 February 2017	•	•	•	•	•
Patrick Moloney	9 March 2015	•	•	•	•	•
Lyn Robinson	3 January 2018	•	•	•	•	•
Peter Fieldsend	27 June 2019	•	•	•	•	•
Stephan Van Arendsen	1 March 2020	•	•	•	•	

Training & Events Record 2020-21

ATTENDANCE RECORD	Trustee Training	LGPS Local Pension Board Members Event	Schroders - Webinar	LGPS Local Pension Board Seminar	PLSA Annual Conference	LGPS Update	PLSA Investment Conference
	12 JUN	24 JUN	26 JUN	1 OCT	12-16 OCT	26 JAN 21	9-11 MAR 21
John Raisin (Chair)		•		•		•	
Geoff Broadhead	•		•				
Donna Ridland	•	•		•	•	•	
Paul Wiggins	•						
Roger Irvine					•	•	•
Patrick Moloney		•					
Lyn Robinson						•	
Peter Fieldsend	•	•		•			

IMWP & GRWP Attendance Record 2020-21

IN ATTENDANCE	IMWP	GRWP	IMWP	GRWP
	17 JUN	21 SEP	23 FEB	14 APR
Peter Fieldsend	•			

Costs of Operation

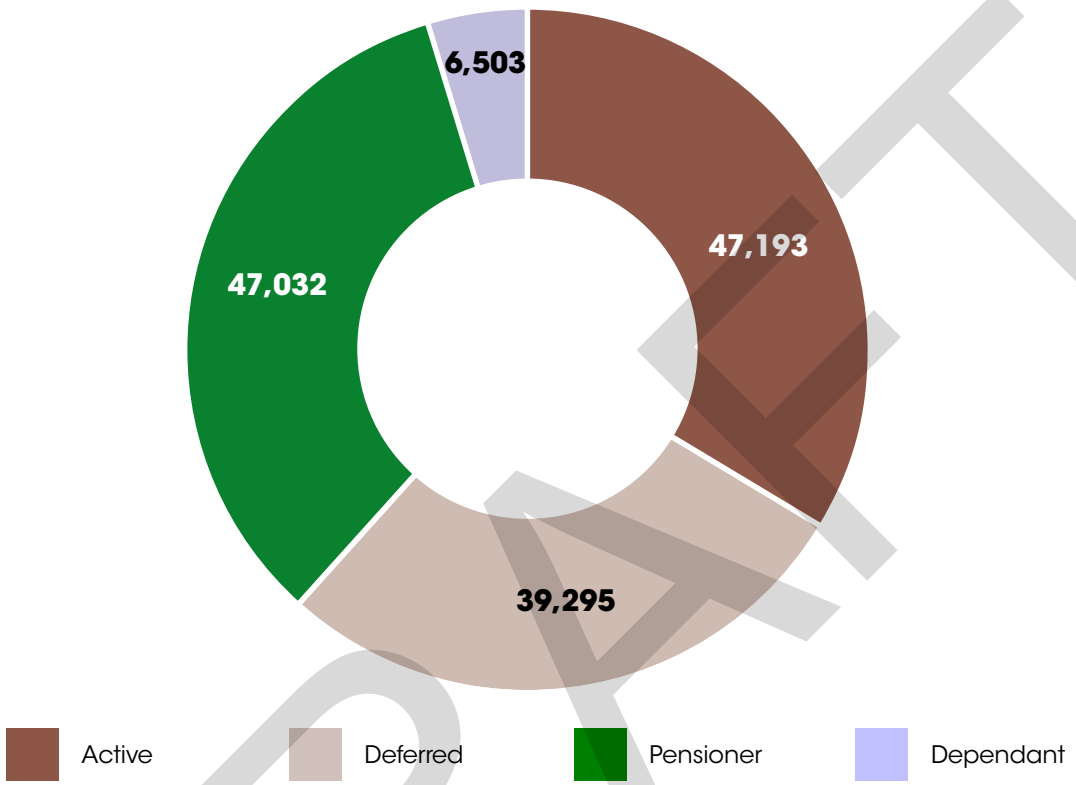
	2020/21 £
Conference	1,990
Travel	0
Allowances	20,415
Total	**22,405**

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

A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 20 September 2021.

Membership Statistics

Membership as at 31 March 2021



Number of Members by Age Band

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active				270	1,736	2,954	3,763	4,580	4,991	5,970	7,937
Deferred				2	237	1,280	3,277	4,610	4,802	6,022	8,098
Pensioner							4	9	24	93	355
Dependant	2	27	53	115	53	9	13	16	34	61	126

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	8,217	5,179	1,357	239							**47,193**
Deferred	7,665	2,821	409	65	7						**39,295**
Pensioner	3,164	8,773	11,090	10,328	6,212	4,020	2,082	714	152	12	**47,032**
Dependant	282	464	667	946	1,015	1,055	953	471	123	18	**6,503**
										Total	**140,023**

Key Membership Statistics 2016 - 2020

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2021	47,193	39,295	47,032	6,503	**140,023**
31 March 2020	46,745	40,185	46,435	6,595	**139,960**
31 March 2019	46,726	40,259	45,038	6,547	**138,570**
31 March 2018	49,151	38,176	43,495	6,665	**137,487**
31 March 2017	47,206	38,368	42,194	6,571	**134,339**

Scheme Administration Report

The Administration Team

The Administration Team is committed to delivering a high quality service which is fully compliant with legislation and industry best practice in order to meet the needs of its stakeholders in an effective and equitable manner.

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

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

The team is constantly evolving to comply with increasing workloads, particularly in respect of governance, data management and the soaring complexity of the Scheme that results in the need to provide greater support to both members and employers.

Service Delivery Developments and Impacts of COVID-19

The reporting year 2020/21 has been busy for the team, with the implementation of new employer contribution rates following completion of the 2019 actuarial valuation, alongside a project to phase the transition of employers from annual to monthly data collection. There has also been a continued focus on effective governance, customer engagement and service development to ensure the Fund is able to adapt and respond to demands from its customers and to the changing regulatory landscape of the LGPS.

During the global pandemic, service has continued whilst many organisations were forced to come to a standstill and reduce service. We have adapted and built new offerings to support our members and employers through uncertain times. Information and support services have moved online and although the demand for face-to-face engagement remains, we have been able to provide a lifeline to many at a time of great need and unfortunately, personal loss. The increasing need for technology and systems to develop working efficiencies and enhance controls has come to the fore, with a focus on supporting our members and employers as they interact with the Fund regarding pension savings and their responsibilities under the Scheme.

In line with tPR and Pension Administration Standards Association (PASA) guidance and in recognition that some members may not have the facility to provide 'wet signatures' at this time, the Fund adapted a number of member and employer forms to enable them to be completed electronically. Additional steps to verify the member's submission when using electronic forms are being undertaken to ensure suitable authority is preserved in the absence of a 'wet signature'.

Unfortunately, because of the enforced change to the way the Fund has had to deliver its service, a number of developmental projects were subject to delays as resources were redirected to ensure that we met immediate operational priorities.

For our own employees, we assessed the impact and risk of COVID-19, with wellbeing and safety being at the heart of our priorities and focus, but ensuring we could maintain service delivery for our customers.

Statutory Framework of LGPS

The Scheme is a public service pension scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG). It is a contributory defined benefit scheme which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants, which are not affected by the Fund's investment performance or market conditions.

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

Employer Base

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

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

Value for Money

To ensure the effectiveness of the administration services, the Fund is monitored through internal and external audits. During the year, the Fund engaged in a benchmarking exercise with other local government, public and private pension funds which provides a comparison of administration cost and service score. This highlighted that the current running costs were below the peer average with a wider range of high-value services provided to both members and employers.

The benchmarking exercise demonstrates that the Fund continues to provide a value for money service within pension administration, with demonstrable improvements to service standards over the year. Work continues to develop our services, to deliver an efficient administration function and to respond to increasing demands, whilst still ensuring value for money for our stakeholders.

LGPS2014 - Scheme Design

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

The LGPS:

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

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

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

Legislative Change

To assist Funds in the management of employer risk and provide employers with the potential to cap their liabilities and allow the cash input to be used to protect accrued liabilities, the principal regulations were amended during the year by the following statutory instrument with an effective date of 23 September 2020:

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020

The above regulations grant administering authorities and employers the flexibilities to review employer contributions, on both exit from the Fund and between actuarial valuations, where there has been a significant change in either the liabilities or the covenant of an employer.

The amendments also permit the Administering Authority to agree a repayment schedule with employers who wish to leave the Scheme but need to spread the cost of the exit debt over a period of time.

There is also provision to enter into Deferred Debt Agreements with an employer to enable them to continue paying deficit contributions without any active members; but only where the Fund is confident that the employer would fully meet its obligations.

As the Fund avidly supported the high-level proposals in relation to the introduction of greater flexibilities for payment of employer contributions as set out in the government consultation - 'Changes to the Local Valuation Cycle & the Management of Employer Risk', the Fund provided evidence to MHCLG to justify the early implementation of the regulations, as we see these changes as a positive step in managing risk to all stakeholders. Consequently, Teresa Clay, Head of Local Government Pensions at MHCLG, invited Fund Officers to a virtual meeting to discuss MPF's experience and reasoning as to how the provisions would assist in managing employer risk.

To utilise these provisions the Fund is required to include policies within its Funding Strategy Statement (FSS) which sets out how the flexibilities will apply in practice to employers.

To assist with drafting the policies and applying the Regulations, the Scheme Advisory Board (SAB) produced a practical guide for Funds and the MHCLG issued statutory guidance on the amendments to the FSS and a short consultation with Fund employers will take place at the start of the next scheme year.

Building on these flexibilities, the Fund is further enhancing its approach to integrated risk management, whether driven by exit, change in covenant or membership, the Fund is taking a proactive approach to engaging with employers on changes between formal triennial valuations, to aid financial planning.

UK Pensions Schemes Act 2021

On 11 February 2021, the UK Pensions Scheme Act received Royal Assent. The provisions within the Act will require further regulations to bring them into effect, with the following sections relevant to the administration of the LGPS:

Pension Dashboards
The Act provides a framework to support pensions dashboards, including new powers to compel schemes to provide information. The Fund will be required to feed-in information on Scheme members and regulations will specify the detail that must be provided, the timing and mode of data transfer.

The Fund is undertaking analysis to ensure that its member data is consistent with the key data standards published by the Pensions Dashboard Programme.

The Fund system supplier will be engaged in developing a means to 'upload' member data securely to the Pensions Dashboard. The method of secure transfer and the supplier costs will become clearer later as the requirements and onboarding timescale approaches, in 2023.

Governance of Transfers
The Act will allow trustees to block transfer requests where conditions in relation to the member's new employment or to their place of residence, are not met. The detail, including the implementation date, will be set out in regulations but the aim is to help prevent pensions scams.

This is welcomed by Fund officers as exercising due diligence when a transfer request is received can be difficult with little scope to refuse a transfer that displays the characteristics of a scam.

Lifetime Allowance frozen
In the Budget on 3 March 2021, the Chancellor announced that the Lifetime Allowance (LTA) - the maximum amount (of pension plus lump sum) that can be drawn from a pension scheme without triggering an extra tax charge - will, instead of being increased each year in line with the annual (September) CPI figure, be frozen at its current level (£1,073,100) until April 2026.

The Restriction of Public Sector Exit Payment Regulations 2020
The legislation implementing the £95k cap on exit payments including pension strain costs came into force on 4 November 2020.

These changes made provision to amend the LGPS regulations to provide for the payment of reduced pensions on redundancy or efficiency grounds. However, as the MHCLG had not yet enacted the required amendments to the LGPS regulations there was a position of legal uncertainty. This is due to the discrepancy between the obligations on Scheme employers under the Cap Regulations to limit strain cost payments, and the requirement for administering authorities to pay unreduced pensions to qualifying Scheme members under existing LGPS regulations.

Consequently, a number of requests for judicial review to retract the Public Sector Exit Payment Regulations were lodged by ALACE/LLG, UNISON and GMB/Unite, contesting the regulations on a number of grounds, including their effect on the existing LGPS Regulations.

The Restriction of Public Sector Exit Payment (Revocation) Regulations 2021
The Government subsequently announced that the exit cap provisions had unintended consequences, the above regulations were enacted with an effective date of 19 March 2021. These regulations removed the cap and the uncertainty for administering authorities in making benefit payments to members who had terminated employment on redundancy or efficiency grounds with effect from 4 November 2020.

The exit payment cap had dominated the LGPS for the latter half of the Scheme year, and the Fund and employers had expended significant resources in dealing with the impacts on member redundancy packages. It is frustrating that these efforts have proven to be futile at this stage, although Treasury has confirmed that they will bring forward proposals at pace to tackle unjustified exit payments.

National Engagement - Scheme Consultations

During the year, the Fund responded to the consultation on amendments to the Statutory Underpin and the Reform of Local Government Exit Pay. The Fund response to both consultations focused on the resource impacts for administrators and the need to limit added complexity within benefit calculations, and thus enable Fund Officer's to support member understanding of the adjustments to their benefits.

McCloud Remedy - Amendments to The Statutory Underpin

On 16 July MHCLG released the consultation on the McCloud remedy for the LGPS in England and Wales.

The key feature of the proposed remedy was broadly as expected, in that the final salary scheme underpin is to be extended to a wider group of members for service up to 31 March 2022.

Initial analysis of the numbers of qualifying members subject to the revised underpin is 34,255, which is a significant undertaking requiring substantial project and resource management.

The Fund response to the consultation highlighted that the proposals bring significant governance, data (collection and verification), communication and cost challenges for the Fund and employers - which will require careful planning and resourcing to ensure that the implementation is as smooth as possible.

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

Reforming Local Government Exit Pay

On 7 September 2020, MHCLG released the above-named consultation which would have far-reaching implications for employers and members employed by public sector bodies within the LGPS. The reforms did not affect employees of employers outside of the public sector.

The proposals, aligned to the £95k exit payment cap, aimed to radically change severance packages and impact workforce planning. However, the proposals went much further than the overarching public sector exit regulations and would have affected all members regardless of the £95k exit payment cap.

The Fund's response to the consultation focused on the untenable regulatory position due to the misalignment of The Restriction of Public Sector Exit Payment Regulations 2020 and the provisions of the LGPS Regulations. A further concern was the increased risk of error due to the necessity for administrators to undertake manual calculation as a result of the expedited timing of the regulations.

MHCLG has abandoned the consultation but will consult again in line with treasury new proposals on exit payments.

Fund Policies

Overpayment of Pensions Policy

The Fund devised a policy formalising the operational and decision-making processes in dealing with the overpayment of pensions.

The policy outlines the circumstances where the recovery of monies is 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 confirms that the Fund adopts the HM Revenue & Customs (HMRC) statutory 'de minimus limit' of £250, which allows 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 considered the draft policy and after making a number of revisions to the document and deemed it suitable for presentation to Pensions Committee on the basis it is equitable to Scheme members, the Scheme itself and the taxpayer.

The Pensions Committee approved the Policy on 30 March 2021.

Key Projects and Developments

Annual Benefit Statement Activity

Due to the global crisis the Pension Regulator issued guidance to pension funds highlighting their priority areas; they confirmed that the delivery of Annual Benefits Statements (ABS) was a second order priority after the payment of pension benefits and the management of data.

However, the production of ABS remains a key priority for the Fund and the annual project to process benefit statements with a targeted issue date of 31 August 2020 progressed with no detriment to the priority of paying member benefits.

Most employer annual data returns were submitted on time and conformity checks were undertaken to validate the data to enable reconciliation against the Fund's accounts.

The tolerances that enable the Fund to identify potential problem areas between actual pay and full-time equivalent pay were lowered from £20k to £10k. The queries that fell outside of these tolerances were sent to employers in June, enabling any corrections that were required to be actioned before ABS production commenced.

The percentage issue of statements for active members was 98% and 99% for deferred members.

Data Quality

Following the data work carried out as part of the 2019 valuation, the Fund actuary identified specific areas of data inconsistencies and gaps based on an overall analysis of both the total Fund and on an individual employer basis. The data mining extends beyond the basic requirements that tPR set out in relation to 'Scheme Specific Data'.

The Fund has allocated staff resources and begun to review and assess the data as part of its wider data quality project.

Work is ongoing to investigate members who have missing pay, and categorising reasons why records are incomplete to enable resolution of the issue. Going forward, this work will enable the Fund to automate the identification of the different categories of error via a series of diarised electronic reports. These reports can be actioned promptly by staff as soon as the errors occur.

In turn, the categorisation and resolution of these queries reduces the errors emerging at subsequent valuations as well as facilitating a smoother transition to the submission of monthly data contributions by employers.

Government Actuary's Department (GAD) Data Collection Exercise @31/3/2020 and Subsequent Actions

During November, the Fund responded to the GAD Data collection exercise and supplied an extract of its membership base assessed at 31 March 2020, to inform the 2020 Scheme valuation.

The Guaranted Minimum Pension (GMP) closure file received from HMRC has been applied to appropriate records following actions to reconcile fund data along with a system fix for deferred member records, which will improve the critical retirement dates and quantify employer liabilities.

The data extract file identified 6,269 records with an outstanding refund entitlement and the Fund has previously taken steps to trace the members and discharge those liabilities as a refund payment to the member, but to no avail. Of the outstanding refunds 2,500 have a value of less than £100 and a pragmatic approach has been taken to record the cases as 'no further liability' status to eliminate any GAD perception of an ongoing retirement pension liability. Each case has a marker to indicate a refund is payable in the event of a member making contact.

The National Insurance Database is a secure, central register of all LGPS memberships, in addition to the above action, a further 650 cases were identified as members holding records with other local authority funds. These suspense refunds were categorised as possible transfer in/out cases. Work continues to discharge liabilities or aggregate previous suspense refunds from former funds.

I-Connect/Monthly Data Collection Project

In collaboration with Heywoods (the Fund's propriety system provider) the Fund's project plan to transition to monthly data collection (MDC) has progressed during the year.

Sefton Council as the pilot employer worked in partnership with the Fund and offered resources to ensure that systems were aligned, and onboarding documentation was clear to employers; thus, enabling the submission of year-to-date pay and contributions to be posted to member records prior to monthly data collection.

The Fund's internal teams have formulated working practices with regard to the fundamental changes to data management and the reconciliation of monies against monthly data submissions.

The explanatory documentation is constantly revised according to feedback and engagement with onboarded employers, and activities are continuing to ascertain the impact i-Connect is having upon business-as-usual Fund working practices.

Fund Officers have produced an introduction and overview presentation for employers and an onboarding timetable that aims to have all employers utilising MDC by 31 March 2022.

To the reporting date, 35 Fund employers have successfully completed the migration to monthly data collection which represents 18% of the Fund's active membership.

Preparatory Activities to Administer the McCloud Remedy

All employer data submissions for member hour changes, received by the Fund since April 2014, have been uploaded onto member records. A sense check of the data identified numerous inconsistencies and the errors were raised for resolution with employers as a precursor to commence the mandatory data reconciliation exercises which will consist of:

- extracting qualifying members hour changes and service breaks for the relevant period for each employer
- supplying data extract to employers in a secure format
- data identified as missing from the Fund's extracts, to be provided on the template spreadsheet of which the Fund will provide to employers
- data extracts to be certified by Senior HR/Finance Officers of the employer once they are satisfied with the reliability of the data.

Testing of the McCloud tools developed by the system provider is ongoing and the team are also developing further the basic system supplied reports to extract data to identify current and former employees of the relevant Scheme employers. The team are also designing solutions and workflow management processes to deal with the returned data files from employers.

The Fund has nominated an officer representative to attend the regional McCloud Working Group which serves as a forum to share information, raise concerns, and seek clarification with the purpose to reach a consistent approach to developing documentation and operational procedures across neighbouring Funds.

The Pension Regulator Pledge against Pension Scams

In light of recent industry concerns regarding the potential for increased pensions scams as a result of the pandemic, the Fund has implemented additional steps and measures within the processes for transfer out requests; these include an enhanced level of manager review before payment of funds is actioned.

In addition, all key staff are undertaking the Pension Regulators' online training module on pension scams which provides guidance on key steps to take and how to identify potential scams.

To demonstrate our commitment to protect our members and to prevent opportunities for scammers, the Fund has pledged to the Pension Regulator to proactively follow the principles of the Pension Scams Industry Group (PSIG) Code of Good Practice in so far as it applies to LGPS Funds.

The pledge states that the Fund will take actions to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from The Pensions Advisory Service
- take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfers procedures
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the Scheme member.

Final Good Governance Report Published

On 15 February 2021, the Scheme Advisory Board (SAB) published the Good Governance: Phase 3 Report which builds on the phase 1 and phase 2 reports published in 2019.

The report provides further detail on the following recommendations.

- The LGPS senior officer: a single named officer who is responsible for the delivery of LGPS activity for a fund. The report covers the core functions of the role, the personal competencies needed to fulfil the role successfully and how the role could be incorporated into different organisational structures.

- Conflicts of interest: all administering authorities should publish a conflicts of interest policy that is specific to the LGPS. That policy should cover how it identifies, monitors, and manages any conflicts. The report includes more detail on what LGPS-specific areas should be covered by the policy.

- Representation: each Administering Authority must publish a policy on how Scheme members and non-Administering Authority employers are represented on its committees.

- Skills and training: introduce a requirement for key individuals, such as Pensions Committee members and section 151 officers, to have the appropriate level of knowledge and understanding to carry out their duties efficiently. The Administering Authority must publish a training strategy that sets out its policy on delivery, assessment and recording of training plans.

- Service delivery: regulation change to make it compulsory for an Administering Authority to publish an administration strategy.

- KPIs: that focus on ensuring that each Administering Authority has defined service standards and has the governance in place to monitor those standards.

- Business planning process: the senior officer and committee must be satisfied with the resource and budget allocated to administer the LGPS each year.

The SAB Chair has written to MHCLG to ask them to implement the recommendations either via revised guidance or regulations.

Preliminary Gap Analysis of MPF
Merseyside Pension Fund is substantially compliant with the proposed governance requirements and officers will undertake a policy review in preparation for the issue of revised guidance and examples of best practice.

Officers are considering their approach to re-drafting the Conflict-of-Interest policies, developing the knowledge and understanding of key individuals within the Fund, documenting service delivery and measuring performance of the LGPS function; ultimately preparing MPF for a biennial independent governance review.

Collaboration with Peer Funds, Scheme Employers and National Bodies

During 2020/21 the Fund has worked closely with a number of other LGPS Funds on national groups to drive improvements to administration procedures, share best practice and develop initiates as follows:

- Develop communications for the wider LGPS, in conjunction with the Local Government Association (LGA), to include the updates on the Exit Cap and production of member videos.

- A longstanding founder member of the LGPS National Frameworks, we have supported in the rolling-out of a number of new frameworks, as well as revisiting existing ones, to enable more efficient and effective procurement within the LGPS.

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

Operational Improvements

Digital Transformation Programme

The aim of the programme is to support the Fund to transform our business areas through the use of technology, to drive business efficiencies and cost savings whilst improving the service we provide to our members and employers. Over the year progress was made in the following areas:

Automation of Refund and Workflow Processes

The Employer Compliance & Membership Team have been working with the IT team to enable the bulk calculation of refunds and the bulk production of documentation for members who leave the Fund prior to the vesting period. This improvement takes advantage of more timely availability of complete data when an employer has onboarded to monthly data collection.

System reports have been designed to interrogate the National NI database to identify other local government membership and to run bulk refund calculations on member records. A work stream has been initiated to test the accuracy of the outputs and the further automation of the process.

Deferred Retirement Estimates

During the year we launched the functionality to allow deferred members to obtain retirement estimates online.

Following the change in regulation, deferred members over the age of 55 now have the right to access their pension benefits with percentage reductions if taken before normal pension age. The release of this functionality within the MyPension online web portal, enables members to run benefit estimates at different dates, assisting in their planning for retirement and enabling quick access to indicative pension information.

The Fund has already seen a significant number of members utilise this facility since its launch and will continue to promote more widely to members in 2021/22.

Digital Accessibility

The Fund has updated its MyPension online web portal, to allow pensioner and dependant members to securely inform the Fund of new bank details.

Customer Engagement

In line with its Business plan, the Fund has expanded the number of customer surveys and linked them to specific life events (joiner, transfer, divorce, retirement, etc). The online surveys are kept simple and short as to encourage members to complete.

The purpose of the customer surveys is to gain more understanding on how information is received by our members, capture suggestions on how it can be improved to enable members' understanding and to evaluate their experience in engaging with the Fund.

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

Strategic Focus, Planning and Operational Cost

Service Planning

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

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

Staff Training and Development

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

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

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

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

Operational Costs

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

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

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

The administration costs reported in the 2019-20 'SF3' statistical return was £21.24 per member.

The Fund participates in an administration benchmarking initiative by the company CEM. With eight other large LGPS Funds, the exercise produced a comparative report between the participating LGPS Funds and six large public or private schemes in the UK. The Fund was assessed as offering 'high member service at a low cost' by CEM when considering our cost effectiveness against the thirteen other peers.

Equality & Diversity

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

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

Member Communications

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

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

Presentations & Courses

During the global pandemic, the communications team were of course prevented from providing physical presentations or courses to members. During the year, the team arranged a number of one-to-one meetings with members who phoned or emailed into the Fund with general queries about their pensions. As working-from-home settled into a reality for a great number of our members, virtual presentations were arranged with interested employers.

Working with the company True Bearing, officers were able to support the delivery of virtual Retirement Planning Events, and feedback has been positive.

Annual Allowance Workshop

During November, the Fund arranged an online webinar presented by Mercer, on the annual allowance - to target those members who were assessed by the Benefits team as having incurred a tax charge as a result of pension growth over the 2019/20 tax year. Subsequent to the webinar, there was the opportunity for members to have a one-to-one session with Mercer's Tax specialist.

Employer Communications

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

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund-specific documents provide detailed information on administrative and operational practice.

Data Security

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

The following arrangements are in place to safeguard this data:

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

Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	92
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	97
4. Provision of Inward Transfer Quotes	10 days	89
5. Notification of Deferred Benefits	22 days	98
6. Provide Valuation in Divorce Cases	10 days	98
7. Respond to Members' Enquiries	10 days	86

(Details given in respect of 12 month period to 31 March 2021)

Internal Dispute Resolution Cases

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

Appeals Against Employer Decisions

Employer	Number	Appeal Decision
Liverpool		
Award of ill health tier	1	Upheld
Award of Flexible Retirement	1	Ongoing
Sefton		
Reason for Leaving	1	Dismissed
Knowsley		
Reason for Termination	1	Dismissed
Award of ill health Pension	1	Ongoing
Total	**5**	

Appeals Against Fund Decisions

Reason for Appeal	Number	Appeal Decision
Stage 1 - Incorrect AVC options presented	1	Dismissed
Stage 2 - Incorrect AVC options presented	1	Upheld
Delay in Payment of Death Grant	1	Dismissed
Transfer out not possible within 12 months of normal pension age	1	Dismissed
Total	**4**	

Investment Report

Year ended 31 March 2021

The past financial year proved to be one of the most tumultuous and remarkable in modern history, not just for financial markets but for the entire world. Many landmark events which transpired during the period, such as escalating US-China trade tensions, the US presidential election and Brexit were rendered mere footnotes as the COVID-19 pandemic swept the globe, eclipsing all other issues and events.

Lockdowns were implemented in most countries to stem the spread of COVID-19 just prior to the start of the financial year, resulting in an immediate and severe economic retraction. To illustrate the magnitude of the effect of lockdowns on GDP growth rates, in the United States growth has averaged 3.2% p.a. from 1947 until 2021, with a record decline of 31.4% in Q2 2020, and rebounding to an all-time high of 33.4% in Q3 2020, when lockdowns were relaxed. In the US at least a quarter of the economy was idled during April, raising the unemployment rate from 6% to 15% in a few weeks. Similar economic scenarios played out in tandem across the developed world as lockdowns were imposed.

Lockdowns inevitably led to a steep reduction in air and road travel, and oil producers were faced with a glut of crude oil that left them scrambling to find space to store the oversupply. In early April 2020 and again in June 2020, Saudi Arabia and Russia agreed to oil production cuts. Oil production can be slowed, but not stopped completely, and even the lowest possible production levels resulted in greater supply than demand; those holding oil futures became willing to pay to offload contracts for oil they were unable to store. The price of oil became negative on 20 April. In a matter of hours, the May 2020 futures contract price for West Texas Intermediate (WTI) plummeted from $18 a barrel to around -$37 a barrel. Brent crude oil prices also tumbled, closing at $9 a barrel on 21 April, a far cry from the $70 a barrel it fetched months earlier.

Despite the ravaging impact lockdowns imparted on the world's economies in Q2 2021, equity markets rallied strongly in April 2020, recovering from the pandemic induced declines of around 35% at their trough in mid-March. Despite the highly restrictive lockdown measures universally imposed, (arguably with the exclusion of Japan and Sweden), equity markets took inspiration from the unprecedented large support and stimulus packages announced by all major developed economies. Indeed, by August most equity indices had recovered their losses. Figure 1 below depicts in detail the stellar returns of all equity markets over the financial year, but to summarize global equity indices rose around 40%. Similarly, the dramatic decline of crude oil prices proved short-lived.

Much debate between market commentators during Q2 and Q3 centred around the, (with the benefit of hindsight perceived), disconnect between equity market valuations and the economy. How could equity markets recover so swiftly when the economic news remained so bleak? Investors were looking past the short-term economic impact of the pandemic to the expected rebound of business activity fuelled by the massive fiscal and monetary support programmes, (both of which run to trillions of dollars), and the subsequent return to more normal conditions.

Nevertheless, these two prevailing opposing views ensured markets remained volatile during this period. Equity market nerves were also manifested in the spectacular strength of gold which broke through the $2000/t oz level for the first time in August as investors sought a hedging asset.

Within equity markets generally, a number of common themes materialised during the course of the financial year. First and foremost is that companies exposed to the digital economy tended to strongly outperform, most notably the US internet technology giants Amazon, Apple and Netflix; as the radical behavioural changes brought about by the pandemic were expected to boost their revenues substantially. Other sectors, such as airlines, hotels and non-food physical retail fared badly, as the pandemic all but curtailed their business models. These sector divergences were most pronounced prior to positive news of vaccine development, post which they partially reversed. Other idiosyncrasies to emerge over the period include increased M&A activity from both corporate and private equity, as they sought to capitalise on unduly depressed stock valuations, and outperformance of small cap indices, due to their generally higher weighting of technology and healthcare stocks.

During November, the world received news that it had only optimistically dreamed of months earlier. COVID-19 vaccines of great efficacy had been developed. Equity markets reacted positively, particularly within the sectors of the market that had been most adversely affected by lockdowns.

Turning to fixed income, aggregate central bank asset purchases approached $10 trillion over the financial year with many sovereign banks purchasing corporate debt in addition to state issued debt. Notwithstanding UK Government bonds ended the financial year close to the levels that they started them, possibly reflecting the pre-existing high valuation of the asset class. At the onset of the pandemic interest rates were generally lowered by central banks and still easy monetary conditions remain supportive.

Despite the finalisation of the Brexit trade agreement the sterling-euro rate ended the financial year little changed from the start, although sterling did appreciate by 11% against the dollar over the period.

Since the positive news on vaccines and the expectation of a return to normality much debate has ensued pertaining to the prospects for increased inflation. Opinion is polarised between those that believe inflationary pressures will be a transitory result of emerging from lockdown or more persistent.

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

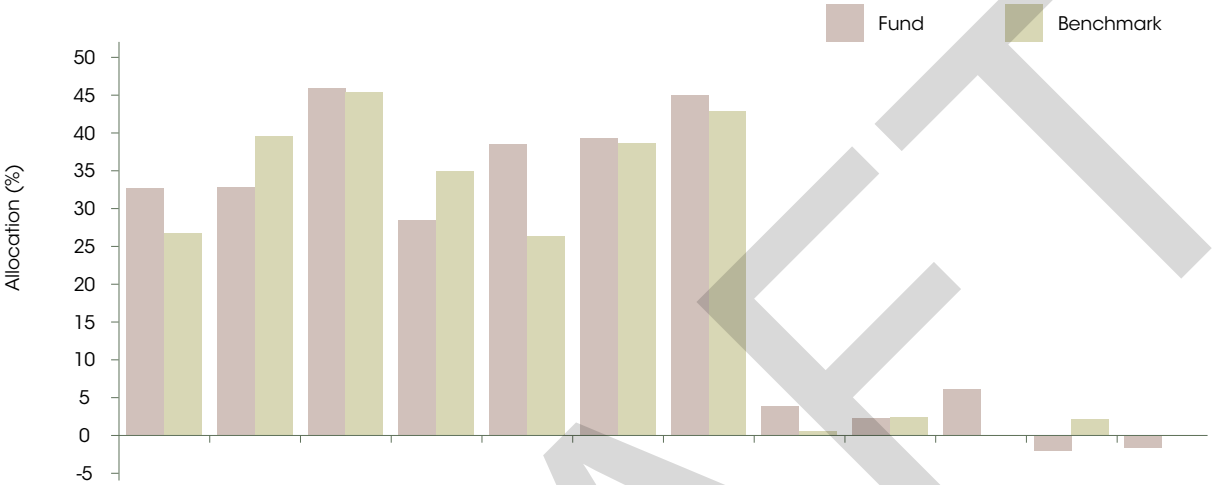
	1 Year	3 Year (Annualised)	5 Year (Annualised)
Merseyside Pension Fund	15.30%	6.03%	8.47%
Benchmark	17.46%	5.12%	7.04%
Relative Return	-1.83%	0.87%	1.34%

(Source - Northern Trust; returns are net of fees and expenses; GBP-adjusted)

Merseyside Pension Fund returned 15.30% in the financial year to the end of March 2021 compared to its bespoke benchmark return of 17.46%; an underperformance of 1.83%. The Fund's return was substantially ahead of the Consumer Price Index (CPI) and the increase in Average Earnings Index which advanced by 0.7% and 4.7% respectively. Over the 3-year and 5-year periods, the Fund returned 6.03% and 8.47% respectively. The longer-term, 5-year performance number is ahead of its bespoke benchmark, CPI (1.8% annualised) and Average Earnings Index (2.9% annualised).

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

Figure 1.
1 Year Return by Asset Class

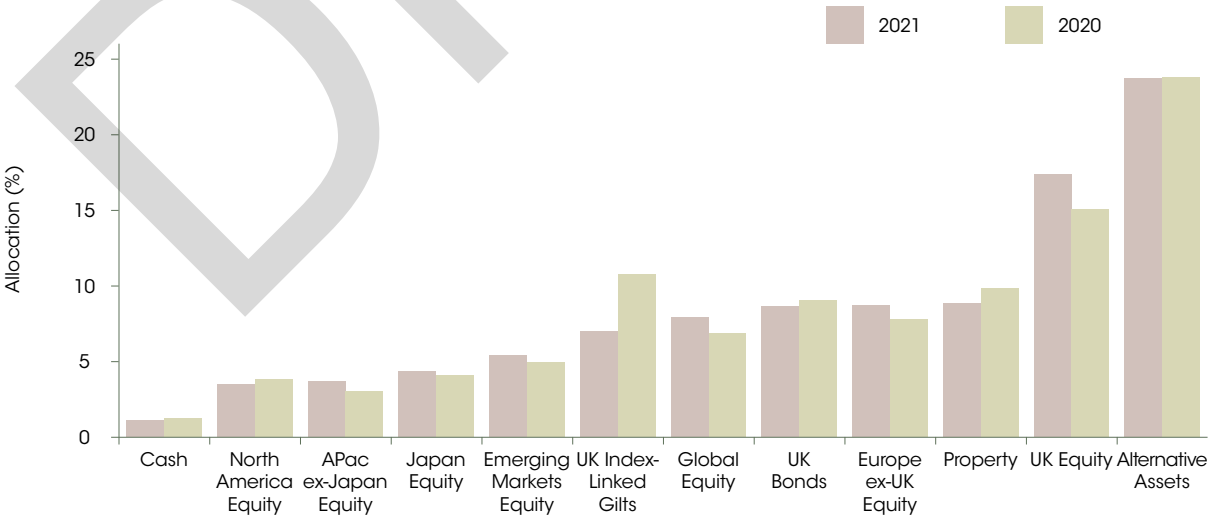


	UK Equity	Global Equity	North America Equity	Europe ex-UK Equity	Japan Equity	APac ex-Japan Equity	Emerging Market Equity	UK Bonds	UK Index-Linked Gilts	Alternative Assets	Property	Cash
Fund	32.57	32.73	45.89	28.45	38.48	39.29	44.88	3.80	2.28	6.08	-2.03	-1.59
Benchmark	26.71	39.54	45.29	34.86	26.27	38.52	42.83	0.56	2.29	-0.07	2.06	-0.07

(Source - Northern Trust; returns are net of fees and expenses; GBP-adjusted)

Figure 2 illustrates the asset allocation of the Fund on 31 March 2021 compared to 31 March 2020.

Figure 2.
Asset Allocation Changes



	Cash	North America Equity	APac ex-Japan Equity	Japan Equity	Emerging Markets Equity	UK Index-Linked Gilts	Global Equity	UK Bonds	Europe ex-UK Equity	Property	UK Equity	Alternative Assets
2021	1.11	3.46	3.69	4.30	5.38	6.96	7.93	8.61	8.68	8.80	17.38	23.71
2020	1.20	3.77	3.02	4.06	4.94	10.74	6.87	9.02	7.77	9.81	15.06	23.74

(Source - Northern Trust; GBP-adjusted)

Equities as an asset class performed very strongly over the financial year. Within equities, whilst the UK and Japanese markets were laggards, the managers employed by the Fund in both geographies performed well against their respective benchmarks. Disappointment did come however from an external active manager covering Europe leading to an overall sub-benchmark return in the region. Within the Fixed Income asset class returns were subdued, though the external active managers utilised by the Fund added value against the UK conventional bond benchmark.

Private Market assets returned 6.08% over the financial year. Contributors were Private Equity, Opportunistic Credit and Other Alternatives (including Hedge Funds). Real assets, namely Infrastructure and Property, detracted. Within Property, the Retail sector bore the brunt of the COVID-19 lockdown; whilst in infrastructure, it was the Transport sector which was hit hardest. These subsectors continue to underperform, weighing on the performance of their respective portfolios, despite strong performance of other sectors e.g. renewables within Infrastructure and Industrial within Property. The asset class faces some strong structural headwinds as retail is expected to remain depressed and move to net zero gathers pace.

Largest UK Property Holdings as at 31 March 2021

Asset	Sector/Focus	Value £'m	Direct Property Portfolio %
Fort Halstead	Commercial (Other)	59.00	12.72
Lever Building	Office	38.35	8.27
Tesco Heswall	Supermarket	32.65	7.04
Mitre Bridge	Industrial	26.10	5.63
Gateway 28	Industrial	24.90	5.37
Total		**181.00**	**39.03**

(Source - CBRE)

Largest Infrastructure Holdings as at 31 March 2021

Asset	Sector/Focus	Value £'m	Infrastructure Portfolio %
Agility Trains East	Transportation	84.00	13.14
Iona Environmental	Biomass	76.00	11.89
Mirova Hydroelectric	Renewables	47.00	7.35
Clyde Wind Farm	Renewables	42.00	6.57
Anglian Water Group	Water Utility	42.00	6.57
Total		**291.00**	**45.52**

(Source - Northern Trust)

Merseyside Pension Fund is a member of GLIL, an infrastructure investment vehicle set up as a joint venture between the Northern LGPS and Local Pensions Partnership Investments. GLIL targets core infrastructure assets predominantly in the United Kingdom. MPF has committed a total of £325mn to GLIL platform including a co-investment into a rolling stock asset. Total committed capital to GLIL from its existing investors currently stands at £2.5bn.

In 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pension Fund established a collective private equity investment vehicle (NPEP). The initial close of NPEP occurred upon its creation in July 2018 with £1.02bn of funding capacity. A second 'Subsequent Closing' was recently held on January 2021 which added a further £325mn of funding, bringing the total to £1.93bn. As at end March 2021 commitments of around £1.51bn had been made to private equity funds, of which c.£308mn came from Merseyside Pension Fund.

Private Equity has shown great resilience against COVID-19 and has performed strongly into 2021. Despite an initial shock at the start of the pandemic, fundraising, exits and deal activity all ended relatively robust. Returns over the year has largely been driven by the outperformance in technology and software industries which Merseyside Pension Fund and NPEP were well positioned to benefit from via fund investments and manager selection.

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

The slight increase in management fee paid to Private Equity and Indirect Property general partners is consistent with increased capital deployment activity into these asset classes during the year. Merseyside Pension Fund has been gradually moving away from more complex and expensive multi layered fee structures to more direct and co-invest structures and over time this strategic change is expected to significantly reduce the overall fee drag on Private Markets Portfolios. The uptick in fee for Opportunities and Hedge Fund portfolios is mainly driven by increase in targeted exposure to Private Credit. Included in the Infrastructure and Private Equity management fee numbers for 2020/21 are £661,800 for GLIL and £2,628,137 for NPEP. Investment Management fees of £13.6 million for 2020/21 and £17.2 million for 2019/20 (within Note 11b of the Financial Statements) are included in the above Management Fee figures of £31.9m and £35.3m, respectively.

	31 March 2020		31 March 2021	
Asset Class	**Management Fee £'000**	**Performance Related Fee £'000**	**Management Fee £'000**	**Performance Related Fee £'000**
Private Equity	7,825	2,388	8,381	2,961
Infrastructure	5,175	0	5,144	94
Property	4,763	460	4,912	578
Opportunities and Hedge Funds	5,777	596	12,347	882
Total	**23,540**	**3,444**	**30,783**	**4,516**

Responsible Investment

The Fund continued to develop its Responsible Investment policy over the period which stimulated the integration of sustainability into investment decision making further. The Fund sustained its membership of the Principles for Responsible Investment (PRI) and has submitted reporting to PRI on its activities to implement the principles over the 2020 calendar year. Merseyside Pension Fund's most recently available PRI Transparency Report can be viewed at: **https://www.unpri.org/signatories**

PIRC work with Merseyside Pension Fund as corporate governance specialists to vote on all eligible listed shareholdings. Voting is cast in line with PIRC recommendations of which are covered by PIRC's Shareholder Voting Guidelines and updated annually. Full disclosure by company of those recommendations is available via the website.

Proxy voting is coordinated across all listed equity holdings through the Northern LGPS. The Northern Pool's RI Policy commits funds to pre-disclosing voting intentions and ensuring vote maximisation through the restriction of its securities lending programme during proxy voting season. Public reporting on voting can be accessed through the Northern LGPS website.

The Local Authority Pension Fund Forum (LAPFF) publish their annual engagement report which summarises the engagement activity over the period carried out via the Fund's active participation. Notably, LAPFF have had significant engagements with mining companies to discuss the importance of meaningful stakeholder engagement, particularly with affected communities. They have supported the 'Say on Climate' initiative, engagements with banks to discuss climate finance, and discussions with the auto industry about their net zero goals and electrification of vehicles. This activity comprises a major part of the Fund's policy on stewardship, as set out in the Investment Strategy Statement. Further detail can be found in the LAPFF Annual Report.

As part of the ongoing strategic review, the Fund adopts a climate scenario analysis to further articulate its investment beliefs on climate and to shape these into investment strategy goals. Through this the Fund continues to publish a report covering The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) Report which provides a global framework to translate non-financial information into financial metrics.

In preparing the TCFD statement for inclusion in this Investment Report, the Fund has referred to the guidance in the PRI publication Implementing the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations: A Guide for Asset Owners (PRI, 2018). While the Fund considers that the evolution of its TCFD reporting is a multi-year endeavour, as a benchmark of progress it can be noted that the PRI's priority actions for asset owners in the near-term, set out on page 7 of the PRI guidance, are all addressed by the Fund's approach to climate risk.

Merseyside Pension Fund - TCFD Statement as at 31 March 2021

Governance

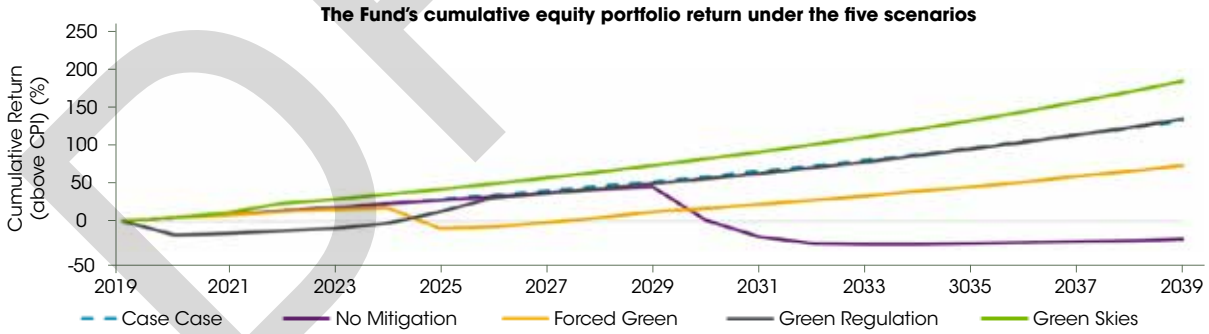
The Pensions Committee (as the Fund's governing body) has mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance 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 five 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.

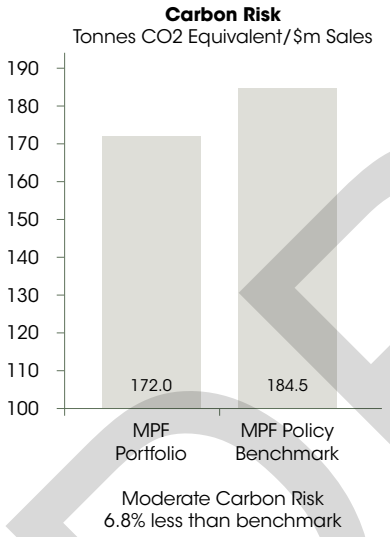


Risk Management

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):



(Source - Aon/MSCI)

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

Climate stewardship

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

Northern LGPS Report

As Chairman of the Northern LGPS Pool Joint Committee I am delighted to update everyone on the progress made by the Northern LGPS Pool over the last year. It should go without saying that this past year has been like no other in recent memory with the global spread and the global response to the Coronavirus pandemic. However, despite the tumultuous year I can proudly say we have not been hindered in our quest to allow the LGPS funds participating in the Pool efficient access to the investments that best serve their members, employers and local taxpayers.

We pride ourselves on our cost effectiveness and believe we lead amongst LGPS pools in achieving value for money. The most recent benchmarking exercise placed the Northern LGPS Pool's costs within the lowest 25% of its international peer group (which consists of 21 global pension funds ranging from £12.7 billion to £90.7 billion). This is a tremendous result which shows the value that economies of scale and a consistency of approach can deliver.

Responsible Investment and Environmental Social and Governance continued to feature prominently on our agenda over 2020/21. This year we signed up to the Make My Money Matter campaign which seeks to increase transparency about where pensions are invested. NLGPS' collaboration with Make My Money Matter is part of the pool's ambition to invest 100% of assets in line with the Paris Agreement on climate change, and will help raise awareness amongst members regarding how their pensions are invested and the efforts being made by the Pool to help combat climate change.

Make My Money Matter shares NGLPS' view that pension assets can be invested to create a sustainable, better future without compromising on returns. This includes meeting the Paris Agreement to achieve net zero carbon emissions by 2050 and exploring the feasibility of a 2030 target in line with the IPCC's 1.5-degree pathway. NLGPS partnership with MMMM is part of a much wider environmental, social and governance investment strategy, incorporating numerous initiatives which comprise our approach to climate change.

Other highlights during the year include the Pool's direct infrastructure platform, GLIL, securing a 30 per cent equity stake in Agility Trains East, a rolling stock fleet of 65 new intercity trains on the East Coast Mainline that will provide much needed connectivity. Infrastructure investment is absolutely critical to supporting the UK's recovery from Coronavirus and building a sustainable economy for the future, and pension funds can, and should, play a fundamental role in helping to fund those projects.

GLIL's future potential was further bolstered by the commitments made by Nest Pensions to invest in GLIL, taking total capital committed to around £2.5bn. Nest is the defined contribution pension scheme set up by Government to ensure all UK employers have access to a pension scheme in which to auto-enrol their employees. It currently has over 9 million members. Nest's ground-breaking commitment to GLIL is one of the first allocations to private markets from a modern defined contribution scheme in the UK and endorses GLIL's governance strength and suitability to provide attractive investment returns for pensions savers. We share Nest's long-term investment horizon and sustainable investment objectives and look forward to building an enduring relationship to bring the benefits of infrastructure investment to millions of workplace pension holders.

It pleases me greatly to know that in the last quarter of 2020-21 alone we engaged with 172 different companies regarding issues across the environmental, social and governance spectrum, and we voted at 467 distinct meetings. We abstained or opposed shareholder votes on increased remuneration in 58% of shareholder meetings to avoid unfair remuneration practices. We have also filed shareholder resolutions for several large international companies where we felt environmental concerns, such as intensive water use in chemical production, were not being properly addressed. We also challenged large companies on their social record where they have been conducting business with countries that do not adequately uphold basic human rights.

I would like to thank my colleagues on the Joint Committee and also the pensions committees, local pension boards and officers from each of the partner funds for their support and hard work over the year. I feel wholeheartedly confident that the coming year will be a positive one. We will carry on thriving by adhering to our cost-effective approach to LGPS investment pooling which delivers sustainable financial returns to the benefit of members, employers and taxpayers.

Background

The Northern LGPS Pool is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) LGPS funds (the 'partner funds'). The combined assets of the funds stood at approximately £53bn as of 31 March 2021, which is invested on behalf of over 800,000 members and 1,250 contributing employers.

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

History

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

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

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

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

The Pool selected Northern Trust as its FCA regulated custodian to ensure all listed assets of the pool (i.e. internally and externally managed equities and bonds) are held within a single permanent FCA regulated entity. The custodian acts as 'master record-keeper' for all assets of the partner funds and manages the calls and distributions in NPEP.

Governance

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

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

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

The Administering Authorities retain full control of their individual funds' asset allocations and nominate members to the Joint Committee.

Northern LGPS Pool
31 March 2021 position at a glance

Fund	Assets Value £bn
GMPF	26.9
WYPF	16.1
MPF	9.9
Total Assets	**52.9**

Pool Set-up Costs

The set-up costs incurred by the pool during 2020-21 and from inception are set out in the table below. The costs are split equally amongst the 3 Funds.

	2020 - 2021			
Set up Costs	**Direct £'000**	**Indirect £'000**	**Total £'000**	**Cumulative £'000**
Recruitment	0	0	0	0
Legal	49	0	49	244
Procurement	35	0	35	125
Other support costs	0	0	0	0
Share purchase/subscription costs	0	0	0	0
Other working capital provided	0	0	0	0
Staff costs	0	0	0	0
Other costs	4	0	4	235
Total	**88**	**0**	**88**	**604**

	From Inception to 31 March 2021			
Set up Costs	**Direct £'000**	**Indirect £'000**	**Total £'000**	**Cumulative £'000**
Recruitment	0	0	0	0
Legal	49	0	49	244
Procurement	35	0	35	125
Other support costs	0	0	0	0
Share purchase/subscription costs	0	0	0	0
Other working capital provided	0	0	0	0
Staff costs	0	0	0	0
Other costs	4	0	4	235
Total	**88**	**0**	**88**	**604**

Northern LGPS Pool - Total costs and savings

The table below sets out the total costs and savings of the Northern LGPS Pool up to 31 March 2021.

	Up to 31 March 2108 £m	2018-19 £m	2019-20 £m	2020-21 £m	Total to 31 March 2021 £m
Annual running costs	0	0	0.16	0.16	0.16
Other service provider fees	0	0.13	0.13	0.13	0.26
Transition costs	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0.09	0.49
Total costs	**0.22**	**0.31**	**0.38**	**0.38**	**0.91**
Investment management fee savings	4.85	7.76	22.24	22.24	42.08
Service provider savings	0	0	0	0	0
Total savings	**4.85**	**7.76**	**22.24**	**22.24**	**42.08**
Total savings net of costs	**4.63**	**7.45**	**21.86**	**21.86**	**41.17**

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

Over the summer of 2021, the Northern LGPS Pool worked in collaboration with the other seven LGPS pools to develop a standardised approach to the measurement of costs and savings, which will allow Government and other stakeholders to better analyse the impact of LGPS asset pooling and assist in future policy. The figures in the table above have been calculated using the agreed standardised approach.

Responsible Investment

Environmental, social and governance (ESG) issues are crucially important to the Pool for a number of reasons. ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Pool and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour.

In addition, the Pool's beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore, we expect high standards from those businesses. Consistent with the Pool's fiduciary duty to our beneficiaries we will ensure that the businesses in which we invest are both financially and environmentally sustainable, have high standards of governance and are responsible employers. As far as possible the Pool will seek to invest in a way that is financially and socially beneficial for the North of England.

Northern LGPS frequently engages with companies the Pool invests in and challenges them where a component of their operations seems deficient. The updates on the Pool's activity can be seen in the quarterly Stewardship Reports.

Our full approach to Responsible Investment can be seen in our Responsible Investment Policy which, at the time of writing, was being updated to reflect the further strengthening of the Pool's approach.

GLIL Direct Infrastructure Vehicle

In April 2015, GMPF and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on the UK. The joint venture is structured as a limited liability partnership and has been named GLIL Infrastructure LLP (GLIL). As part of the Local Government Pension Scheme (LGPS) pooling discussions, West Yorkshire, Merseyside and Lancashire County Council pension funds joined GLIL in December 2016. In March 2018 GLIL was re-structured as an open-ended fund to facilitate potential new members. Additional commitments made by existing members mean GLIL now has committed capital of approximately £2.5 billion.

GLIL began investing in October 2015 and has completed ten transactions with a total value in excess of £1.6 billion.

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

One of GLIL's more recent transactions, which was completed in January 2021, is the £335 million acquisition of a 30% equity stake in Agility Trains East, a rolling stock fleet of 65 new intercity trains, from Hitachi Rail Limited. The transaction will support the long-term operation of the state-of-the-art trains on the UK's East Coast Main Line.

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

Northern Private Equity Pool LP

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

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

Investment pace since inception has been consistent with targets, with over £1bn committed to 17 investment funds.

At the end of 2019 an investment commitment was concluded with HarbourVest Partners that specifically addressed the co-investment aims of Northern LGPS. The target is for co-investment to constitute 20% of the NPEP portfolio, providing additional fee savings for the Northern LGPS partner funds.

Northern LGPS Property Framework

During the year the Pool has established a property framework which will deliver efficiencies in the management of property investments and related services. The framework is comprised of six lots covering a wide range of services.

Objectives for 2021/22

- Finalise the updating of the Pool Responsible Investment Policy and continue to enhance the impact of our responsible investment activities
- Collaborate with Government, other LGPS funds and pools and global benchmarking services to help achieve a consistent approach to measuring costs and savings across LGPS pools

Councillor Gerald Cooney
Chair of Northern LGPS Pool

Financial Performance

Key Financials for 2020/21

	£'000	£'000	£'000
Fund Value at 31 March 2020			**8,638,752**
Contributions and Benefits			
Employer Contributions	276,784		
Employee Contributions	60,633		
		337,417	
Pensions Paid	(287,859)		
Lump Sums Paid	(62,782)		
		(350,641)	
Net Transfers		(1,660)	
Net Cash Flow from Members			**(14,884)**
Management Expenses			
Administration	(3,067)		
Investment Management	(34,992)		
Oversight and Governance	(2,019)		
		(40,078)	
Other Income		288	
Net Management Expenses			**(39,790)**
Investments			
Income	186,932		
Change in Market Value	1,308,738		
Return from Investments			**1,495,670**
Fund Value at 31 March 2021			**10,079,748**

The table below describes the Fund's performance for key financial variables against forecasts (forecast February and July 2020) for the 12 months to 31 March 2021.

2020/2021 or at 31 March 2021	Predicted £'000	Actual £'000
Fund Size 2020	**8,638,752**	**8,638,752**
Fund Size 2021	**8,986,463**	**10,079,748**
Pensions Paid	(358,093)	(350,641)
Contributions Received	324,862	337,417
Net Transfers	-	(1,660)
Net Cash Flow From Members	**(33,231)**	**(14,884)**
Net Management Expenses	**(50,995)**	**(39,790)**
Investment Income	126,010	186,932
Change in Valuation of Assets	305,928	1,308,738
Return from Investments	**+431,938**	**+1,495,670**
Net Change Overall	**+347,711**	**+1,440,996**

The key variance between the forecast and the actual performance was the return on investments, the change in the valuation of assets; this is largely out of the control of the Fund and as explained throughout the report, asset markets rebounded strongly over the 12 month period.

The contributions received in 2020/21 are higher than in previous years, due to a number of employers paying additional and upfront contributions covering a three year period, until the next actuarial valuation in 2022, consequently the following 2 years will be reduced accordingly.

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

12 months to 31 March 2021	Budget £'000	Actual £'000
Employees	3,736	3,274
Premises	199	199
Transport	36	1
Investment Fees - operating budget	14,908	14,817
Supplies and Services	2,560	1,617
Third Party	1,250	1,213
Recharges	360	331
Total	**23,049**	**21,452**

Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building.
For the purposes of the operating budget, Investment fees above refers to invoiced investment costs only and is therefore lower than the figure disclosed in the Fund Account.

Overall, the actual out-turn for 2020/21 was £21.5 million, lower than the original budget of £23.0 million approved by Pensions Committee February 2020, this is largely due to budgeted projects and areas of work being deferred to 2021/22 due to the pandemic.

The 2021/22 Fund budget as approved by Pensions Committee in March and June 2021 is detailed in the table below.

	2020/21 £'000
Employees	3,842
Premises	206
Transport	20
Investment Fees - operating budget	17,356
Supplies and Services	2,625
Third Party	1,125
Recharges	360
Total	**25,534**

The assumptions that underpin this budget are that investment performance follows long-term trends and that the Fund follows the long-term trends in mortality and other factors assumed within the actuarial valuation. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure, nor any investment changes associated with pooling. The budget for 2021/22 at £25.5m reflects higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

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

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Fund Size Start of Year	**10,079,748**	**10,349,574**	**10,631,683**
Fund Size End of Year	**10,349,574**	**10,631,683**	**10,972,470**
Contributions Received	160,800	164,016	213,196
Pensions Paid	(352,394)	(354,156)	(355,927)
Net Transfers	-	-	-
Net Inflow From Members	**(191,594)**	**(190,140)**	**(142,731)**
Net Management Expenses	**(42,569)**	**(45,227)**	**(48,066)**
Investment Income	199,830	213,619	228,358
Change in Valuation of Assets	304,157	303,860	303,226
Return from Investments	**503,987**	**517,479**	**531,584**
Net Change Overall	**269,823**	**282,111**	**340,788**

As stated earlier, the contributions received in 2020/21 were higher due to a number of employers paying additional and upfront payments covering a three year period in year 1, consequently, year 2 (2021/22) and year 3 (2022/23) have been reduced accordingly.

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

Financial Statements

Fund Account - for year ended 31 March 2021

2019/20 £'000		Note	2020/21 £'000
	Dealing with Members, Employers and Others Directly Involved in the Fund		
247,526	Contributions Receivable	7	337,417
18,152	Transfers In	8	15,214
265,678			**352,631**
(352,107)	Benefits Payable	9	(350,641)
(18,039)	Payments to and on Account of Leavers	10	(16,874)
(370,146)			**(367,515)**
(104,468)	**Net Additions/(Withdrawals) from Dealing with Members**		**(14,884)**
(41,310)	Management Expenses	11	(39,790)
(145,778)	**Net Additions/(Withdrawals) including Fund Management Expenses**		**(54,674)**
	Return on Investments:		
208,623	Investment Income		191,236
(301,967)	Profit and Losses on Disposal of Investments and Change in Market Value of Investments		1,308,738
(4,864)	Taxes on Income		(4,304)
(98,208)	**Net Return on Investments**		**1,495,670**
(243,986)	Net Increase/(Decrease) in the Fund During the Year		1,440,996
8,882,738	Net Assets of the Fund at the Start of the Year		8,638,752
8,638,752	**Net Assets of the Fund at the End of the Year**		**10,079,748**

Net Assets Statement - for year ended 31 March 2021

2019/20 £'000		Note	2020/21 £'000
	Investment Assets	13	
2,483,568	Equities		3,213,642
696,229	Bonds		696,000
4,432,443	Pooled Investment Vehicles		5,393,027
250,407	Derivative Contracts		403,815
471,925	Direct Property		463,725
86,076	Loans		78,110
105,010	Short-term Cash Deposits		125,018
181,507	Other Investment Balances		144,548
8,627,952			**10,517,885**
(100,276)	**Investment Liabilities**	14	**(465,355)**
8,606,889	**Total Net Investment Assets**		**10,052,530**
6,337	Long-term Assets	19	3,337
41,621	Current Assets	20	40,433
(16,095)	Current Liabilities	20	(16,552)
8,638,752	**Net Assets of the Fund as at 31 March**		**10,079,748**

Notes to the Accounts

1. Description of Fund

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the Administering Authority.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2020/21 included ten councillors from Wirral Council, the Administering Authority and one councillor from each of the four other Merseyside Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

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

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

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

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

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

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

Organisations participating in Merseyside Pension Fund include:

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

There are 209 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 140,023 members as detailed below:

31/3/20		31/3/21
207	Number of Employers with Active Members	**209**
46,745	Number of Employees in Scheme	47,193
46,435	Number of Pensioners	47,032
6,595	Number of Dependants	6,503
40,185	Number of Deferred Pensioners	39,295
139,960	**Total Scheme Members**	**140,023**

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

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

Restatements in 2019/20 are a change in presentation only, the requirements of the code were previously met.

The accounts have been prepared on a going concern basis.

The Code (paragraph 3.3.1.2) requires the disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all assets with a term of more than 12 months unless the underlying asset is of low value. Implementation of IFRS 16 is not expected to have a material impact on the Fund because it does not hold any assets as a lessee.

3. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Management Costs
All investment expenses are accounted for on an accruals basis.

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

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

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

In accordance with CIPFA 'Accounting for Local Government Pension Scheme Management Expenses (2016)' guidance, transaction costs are shown under investment expenses.

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

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

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

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

Rental income from properties is recognised on a straight-line basis over the term of the lease. Rent is accounted for, as demanded for 2020/21, for 2019/20 rent was accounted for in the period it related to. Rent is shown net of related expenses.

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

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

Valuation of Investments
All financial assets apart from loans are included in the Net Asset Statement on a fair value basis as at the reporting date. Loans are included in the Net Asset Statement on an amortised cost basis. The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained had the securities been sold at that date
- For unlisted investments, wherever possible, valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators, or using latest financial statements published by respective Fund Managers, adjusted for any cash flows
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds, the net asset value per unit is obtained through data vendors
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2021 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). This valuation has been prepared in accordance with the RICS
- Valuation - Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2020 together, where applicable, with the UK National Supplement effective 14 January 2019, together the 'Red Book'. The valuations were arrived at predominantly by reference to market evidence for comparable property

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

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

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

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

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

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

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

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

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

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

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

4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

5. Estimation and Uncertainty

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

There have been a number of material factors which continue to make it difficult to quantify what the outcome could be on financial markets. How long will the pandemic last? How many waves will there be? How deep will its economic impacts be? There has been unprecedented government support through stimulus policies including support via the furlough scheme, central banks reacted by immediately reducing the base rate and have embarked on substantial asset purchase programs. Both the short and

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

As a result of COVID-19, the future investment values may be more volatile, at least over the short to medium term, until there is a successful worldwide vaccine programme or other successful cure is found for COVID-19.

Unquoted Investments
The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2021 was £4,745 million (£4,289 million at 31 March 2020).

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

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

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

For 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.

For 2020/21 there remains additional uncertainty regarding the valuations of illiquid assets, due to the uncertainties in the financial markets and the time it will take to fully realise the impact of COVID-19 on such assets. There is an increased level of risk that the estimated valuations may be mis-stated. The valuations have been updated based upon the available information as at 31 March 2021 and maybe subject to variations as further information becomes available. Note 15 sets out a sensitivity analysis of such assets valued at level 3.

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

6. Events After the Reporting Date

There have been no events since 31 March 2021, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions Receivable

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2020/21 contributions above were calculated at the valuation dated 31 March 2019. The 2019 actuarial valuation calculated an average primary employer contribution rate of 17.2% (2016 15.4%). The Fund has received additional and upfront payments covering a three-year period, until the next actuarial valuation in 2022, totaling £94.7 million (in 2019/20 £nil).

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

'Deficit Funding' includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2020/21 the Fund has received additional and upfront payments, totalling £3.1 million, (in 2019/20 £22.4 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2020/21 no such charges were levied.

2019/20 £'000		2020/21 £'000
	Employers	
137,903	Normal	257,619
9,726	Pension Strain	4,665
41,501	Deficit Funding	14,500
189,130	**Total Employers**	**276,784**
	Employees	
58,396	Normal	60,633
247,526		**337,417**
	Relating to:	
27,826	Administering Authority	27,478
175,241	Statutory Bodies	282,567
44,459	Admission Bodies	27,372
247,526		**337,417**

8. Transfers In

2019/20 £'000		2020/21 £'000
18,152	Individual Transfers	15,214
18,152		**15,214**

There were no group transfers to the Fund during 2020/21.

9. Benefits Payable

2019/20 £'000		2020/21 £'000
278,801	Pensions	287,859
66,288	Lump Sum Retiring Allowances	55,869
7,018	Lump Sum Death Benefits	6,913
352,107		**350,641**
	Relating to:	
48,313	Administering Authority	47,540
246,651	Statutory Bodies	247,375
57,143	Admission Bodies	55,726
352,107		**350,641**

10. Payments to and on Account of Leavers

2019/20 £'000		2020/21 £'000
568	Refunds to Members Leaving Service	435
-	Payment for Members Joining State Scheme	-
(239)	Income for Members From State Scheme	(9)
-	Group Transfers to Other Schemes	-
17,710	Individual Transfers to Other Schemes	16,448
18,039		**16,874**

There were no group transfers out of the Fund during 2020/21.

11. Management Expenses

2019/20 £'000		2020/21 £'000
3,022	Administration Costs	3,067
36,183	Investment Management Costs	34,992
2,552	Oversight and Governance Costs	2,019
(447)	Other Income	(288)
41,310		**39,790**

11a. Administration Costs

2019/20 £'000		2020/21 £'000
2,075	Employee Costs	2,169
667	IT Costs	643
248	General Costs	216
32	Other Costs	39
3,022		**3,067**

11b. Investment Management Costs

2020/21	Total £'000	External Investment Management Fees £'000	External Investment Management Performance Fees £'000	External Private Market Fees £'000	External Private Market Expenses £'000	Transaction Costs £'000
Equities	14,643	7,231	3,312	-	-	4,100
Bonds	110	110	-	-	-	-
Pooled Investment Vehicles	16,712	3,179	157	7,649	5,720	7
Derivative Contracts	1,375	828	-	-	-	547
Loans	477	-	-	-	207	270
Short-Term Cash Deposits	-	-	-	-	-	-
Other Investment Balances	-	-	-	-	-	-
		11,348	**3,469**	**7,649**	**5,927**	**4,924**
External Services	820					
Internal Investment Management Fees	855					
	34,992					

2019/20 Restated	Total £'000	External Investment Management Fees £'000	External Investment Management Performance Fees £'000	External Private Market Fees £'000	External Private Market Expenses £'000	Transaction Costs £'000
Equities	13,185	7,494	1,793	-	-	3,898
Bonds	102	102	-	-	-	-
Pooled Investment Vehicles	20,351	3,287	33	8,392	8,444	195
Derivative Contracts	709	709	-	-	-	-
Loans	378	-	-	-	378	-
Short-Term Cash Deposits	-	-	-	-	-	-
Other Investment Balances	-	-	-	-	-	-
		11,592	**1,826**	**8,392**	**8,822**	**4,093**
External Services	684					
Internal Investment Management Fees	774					
	36,183					

Property expenses are now shown within note 12a.

11c. Oversight and Governance Costs

Actuarial fees included within External Services below (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2020/21 is £230,382 relating to recharged Actuarial fees (2019/20 £374,145).

The External Audit fee for 2020/21 is £46,249, an additional £12,250 relates to services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

2019/20 £'000		2020/21 £'000
585	Employee Costs	534
1,405	External Services	1,162
49	Internal Audit	49
46	External Audit	58
467	Other Costs	216
2,552		**2,019**

12. Investment Income

Rental income is shown net of any property related expenses.

Interest on loans has been accrued up to 31 March 2021.

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £8.1 million (2019/20 £9.0 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, repayments received in 2020/21 £2.6 million (2019/20 £nil).

2019/20 £'000		2020/21 £'000
101,798	Dividends from Equities	77,984
4,664	Income from Bonds	3,965
43,827	Income from Pooled Investment Vehicles	50,385
24,679	Rents from Properties	25,464
1,208	Interest on Short-term Cash Deposits	202
16,183	Income from Private Equity	24,509
14,793	Interest from Loans	6,981
1,471	Other	1,746
208,623		**191,236**
(4,864)	Irrecoverable Withholding Tax	(4,304)
203,759		**186,932**

12a. Property Income

During 2020/21, the Fund switched to monthly accounting for rental income and also changed its accounting policy to account for rental income as demanded and due, this has resulted in rental income demanded and due in March 2021 being included for 2020/21, and therefore for 2020/21 rent demanded is for a period of 15 months compared to a 12 month period for 2019/20. Rental income demanded and due in March 2021, but is for the period April to June 2021 amounted to £4 million.

The outbreak of COVID-19, declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions and local and national lockdowns have been implemented within the UK, impacting upon tenants occupying our investment properties and the collection of rental income. The Fund has assessed its property arrears as at 31 March 2021 (£8.3 million) and assessed that a credit loss provision to the value of £1.8 million is appropriate to reflect rental income arrears at risk and rent concessions granted for the period and is shown in note 20.

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

2019/20 £'000		2020/21 £'000
30,938	Rental Income	33,138
(6,259)	Direct Operating Expenses	(7,674)
24,679	**Net Rent from Properties**	**25,464**

12b. Property Operating Leases

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

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

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

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

2019/20 £'000	Age Profile of Lease Income	2020/21 £'000
4,584	No later than one year	3,345
5,147	Between one and five years	5,327
14,386	Later than five years	16,490
24,117	**Total**	**25,162**

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

13. Investments

2020/21	Market Value 31/3/20 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value 31/3/21 £'000
Equities	2,483,568	1,377,745	(1,332,543)	684,872	3,213,642
Bonds	696,229	49,733	(61,334)	11,372	696,000
Pooled Investment Vehicles	4,432,443	1,298,955	(1,184,860)	846,489	5,393,027
Direct Property	471,925	41,061	(16,463)	(32,798)	463,725
Loans	86,076	50,588	(55,222)	(3,332)	78,110
	8,170,241	**2,818,082**	**(2,650,422)**	**1,506,603**	**9,844,504**
Derivative Contracts:					
FX	14,378	1,877,448	(1,875,729)	(16,097)	-
Options	150,973	1,011,312	(1,040,276)	(154,479)	(32,470)
Swaps	5,843	77,440	(67,895)	(21,589)	(6,202)
	8,341,435	**5,784,282**	**(5,634,322)**	**1,314,437**	**9,805,832**
Short-Term Cash Deposits	105,010				125,018
Other Investment Balances	181,507			(5,699)	144,548
Amounts due to Stockbrokers	(21,063)				(22,868)
	8,606,889			**1,308,738**	**10,052,530**

2019/20	Market Value 31/3/19 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value 31/3/20 £'000
Equities	2,795,439	1,252,204	(1,124,083)	(439,992)	2,483,568
Bonds	665,610	50,749	(31,827)	11,697	696,229
Pooled Investment Vehicles	4,621,558	625,588	(752,749)	(61,954)	4,432,443
Direct Property	521,750	21,943	(35,483)	(36,285)	471,925
Loans	73,947	45,252	(33,123)	-	86,076
	8,678,304	**1,995,736**	**(1,977,265)**	**(526,534)**	**8,170,241**
Derivative Contracts:					
FX	-	596,312	(652,834)	70,900	14,378
Options	-	89,624	(95,418)	156,767	150,973
Swaps	-	39,477	(33,682)	48	5,843
	8,678,304	**2,721,149**	**(2,759,199)**	**(298,819)**	**8,341,435**
Short-Term Cash Deposits	86,098				105,010
Other Investment Balances	104,196			(3,148)	181,507
Amounts due to Stockbrokers	(8,445)				(21,063)
	8,860,153			**(301,967)**	**8,606,889**

** Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.*

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

13a. Analysis of Investments

2019/20 £'000		2020/21 £'000
	Equities (Segregated Holdings)	
1,014,305	UK Quoted	1,336,937
1,469,263	Overseas Quoted	1,876,708
2,483,568		**3,213,642**
	Bonds	
679,699	UK Public Sector Quoted	695,600
400	UK Corporate Quoted	400
16,130	Overseas Corporate Quoted	-
696,229		**696,000**
	Pooled Investment Vehicles	
	UK Managed Funds:	
75,913	Equities	117,664
108,663	Private Equity	196,808
172,358	Hedge Funds	180,197
384,588	Corporate Bonds	407,569
299,982	Infrastructure	359,855
216,442	Opportunities	315,882
	Overseas Managed Funds:	
564,600	Equities	722,853
518,898	Private Equity	633,688
102,410	Hedge Funds	112,532
62,884	Corporate Bonds	84,315
251,592	Infrastructure	250,699
68,655	Opportunities	97,171
	UK Unit Trusts:	
72,111	Property	106,888
	Overseas Unit Trusts:	
214,805	Property	217,324
1,318,542	**Other Unitised Funds**	1,589,582
4,432,443		**5,393,027**
	Derivative Contracts	
14,439	FX	-
229,839	Options	402,967
6,130	Swaps	848
250,408		**403,815**
	UK Properties	
345,825	Freehold	348,425
126,100	Leasehold	115,300
471,925		**463,725**
521,750	Balance at 1 April	471,925
21,943	Additions	41,061
(35,483)	Disposals	(16,463)
11,583	Net Gain/(Loss) on Fair Value	3,621
(47,868)	Other Changes in Fair Value	(36,419)
471,925	**Balance at 31 March**	**463,725**

2019/20 £'000		2020/21 £'000
86,076	**Loans**	**78,110**
105,010	**Short-Term Cash Deposits**	**125,018**
	Other Investment Balances	
55,729	Outstanding Trades	7,481
22,589	Outstanding Dividend Entitlements and Recoverable Withholding Tax	20,630
103,189	Cash Deposits	116,437
181,507		**144,548**
8,707,165	**Total Investments**	**10,517,885**

As at 31 March 2021 there were no restrictions on the realisability of investment property or of the remittance of income or proceeds of disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

13b. Analysis of Derivatives

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

Settlement Date	Currency Bought '000	Currency Sold '000	Asset £'000	Liability £'000
Up to one month	GBP 68	HKD 731	-	
Up to one month	HKD 894	GBP 84	-	-
			-	**-**
Net Forward Currency Contracts at 31 March 2021			**-**	**-**
Prior Year Comparative				
Open Forward Currency Contracts at 31 March 2020			14,439	(61)
Net Forward Currency Contracts at 31 March 2020				**14,378**

Purchased/Written Options
Options are contracts between two parties that gives the purchaser the right, but not the obligation to either buy (call) or sell (put) at a price at a specific date. The purchaser pays immediately, a non-returnable premium (price) to secure the option. To minimise the risk of loss of value through adverse equity price movements, during 2020/21 the Fund bought a number of equity option contracts that protect it from falls in value in its main investment markets.

Underlying Option Contract	Expires	Put/Call	Notional Holding £'000	Market Value 31/3/21 £'000
Assets				
Overseas equity purchased	One to three months	Put	-	**-**
Overseas equity purchased	Over three months	Put	400	**94,340**
Overseas equity purchased	Over three months	Call	650	**308,627**
Total Assets				**402,967**
Liabilities				
Overseas equity written	One to three months	Put	(490)	**(49,542)**
Overseas equity written	One to three months	Call	-	**-**
Overseas equity written	Over three months	Call	(400)	**(385,896)**
Total Liabilities				**(435,438)**
Net Purchased/Written Options				**(32,471)**

Underlying Option Contract	Expires	Put/Call	Notional Holding £'000	Market Value 31/3/20 £'000
Assets				
Overseas equity purchased	One to three months	Put	306	**214,159**
Overseas equity purchased	Over three months	Put	36	**9,452**
Overseas equity purchased	Over three months	Call	72	**6,227**
Total Assets				**229,838**
Liabilities				
Overseas equity written	One to three months	Put	(356)	**(62,832)**
Overseas equity written	One to three months	Call	(307)	**(3,724)**
Overseas equity written	Over three months	Call	(36)	**(12,309)**
Total Liabilities				**(78,865)**
Net Purchased/Written Options				**150,973**

Swaps

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

As at 31 March 2021, the Fund held cash and non-cash collateral of £8.0 million to mitigate the risk of loss and credit risk. As the Fund has an obligation to return the collateral, it is excluded from the Fund valuation.

	Expires	Notional Holding £'000	Market Value 31/3/21 £'000
Assets			
Total Return Swaps	Up to one year	9,581	**848**
Total Assets			**848**
Liabilities			
Total Return Swaps	Up to one year	(9,506)	**(7,049)**
Total Liabilities			**(7,049)**
Net Swaps			**(6,201)**

	Expires	Notional Holding £'000	Market Value 31/3/20 £'000
Assets			
Total Return Swaps	Up to one year	129,999	**6,130**
Total Assets			**6,130**
Liabilities			
Total Return Swaps	Up to one year	6,000	**(287)**
Total Liabilities			**(287)**
Net Swaps			**5,843**

13c. Summary of Managers' Portfolio Values at 31 March 2021

2019/20 £'m	2019/20 %		2020/21 £'m	2020/21 %
		Externally Managed		
225	2.6	JP Morgan (European Equities)	301	3.0
344	4.0	Nomura (Japan)	422	4.2
385	4.5	Schroders (Fixed Income)	408	4.1
391	4.5	Legal & General (Fixed Income)	447	4.4
274	3.2	Unigestion (European Equities)	237	2.4
145	1.7	M&G (Global Emerging Markets)	216	2.1
211	2.4	TT International (UK Equities)	298	3.0
243	2.8	Blackrock (UK Equities)	306	3.0
129	1.5	Blackrock (Pacific Rim)	-	-
244	2.8	Newton (UK Equities)	306	3.0
169	2.0	Amundi (Global Emerging Markets)	255	2.5
130	1.5	Maple-Brown Abbot (Pacific Rim Equities)	183	1.8
929	10.8	State Street Global Advisor (Passive Manager)	1,146	11.4
892	10.3	State Street Global Advisor (Bonds Manager)	703	7.0
1	-	Blackrock (Transition Manager)	-	-
4,712	**54.6**		**5,228**	**51.9**
		Internally Managed		
439	5.1	UK Equities	615	6.1
228	2.6	European Equities	316	3.1
-	-	Asia Pacific ex Japan	181	1.8
472	5.5	Property (Direct)	464	4.6
371	4.3	Property (Indirect)	413	4.1
628	7.3	Private Equity	831	8.4
411	4.8	Hedge Funds	439	4.4
585	6.8	Infrastructure	647	6.4
415	4.8	Opportunities	550	5.5
184	2.1	Global Equities Internal Factor	239	2.4
183	2.1	Short Term Deposits & Other Investments	130	1.3
3,916	**45.4**		**4,825**	**48.1**
8,628	**100.0**	**Total**	**10,053**	**100.0**

As at 31 March 2021 no single investment represented more than 5% of the net assets available for benefits.

13d. Stock Lending

As at 31 March 2021, £217.8 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totaling £231.8 million. Collateral is marked to market and adjusted daily. Income from Stock Lending amounted to £640,188 and is included within 'Other' Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14. Investment Liabilities

2019/20 £'000		2020/21 £'000
79,213	Derivative Contracts	442,487
21,063	Amounts Due to Stockbrokers	22,868
100,276	**Total**	**465,355**

15. Fair Value - Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Quoted Equities and Pooled Investment Vehicles	Level 1	Published bid market price ruling on the final day of the accounting period.	Not Required	Not Required
Quoted Fixed Income Bonds and Unit Trusts	Level 1	Fixed interest securities are valued at a market value based on current yields.	Not Required	Not Required
Derivatives - Futures and Options	Level 1	Published exchange prices at year end.	Not Required	Not Required
Loans	Level 1	Carrying Value is deemed to be fair value because expected future interest rates are not significantly different from contractual interest rates for the loan.	Not Required	Not Required
Cash and Cash Equivalents	Level 1	Carrying Value is deemed to be fair value because of the short-term nature of these financial instruments.	Not Required	Not Required
Other Investment Balances	Level 1	Carrying Value is deemed to be fair value because of the short-term nature of these financial instruments.	Not Required	Not Required
Investment Debtors and Creditors	Level 1	Carrying Value is deemed to be fair value because of the short-term nature of these financial instruments.	Not Required	Not Required
Unquoted Equities Investments	Level 2	Average of broker prices.	Evaluated price feeds	Not required
Unquoted Fixed Income Bonds and Unit Trusts	Level 2	Average of broker prices.	Evaluated price feeds	Not required
Unquoted Pooled Fund Investments	Level 2	Average of broker prices.	Evaluated price feeds	Not required
Derivatives - Forward Currency Contracts	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Derivatives - OTC Options and OTC Swaps	Level 2	Option pricing models and Swaps pricing models.	Not required	Not required
Pooled Property Funds and Hedge Funds where regular trading takes place	Level 2	Closing bid price where bid and offer prices are published - closing single price where single price is published.	NAV - based pricing set on a forward pricing basis.	Not required
Pooled Property Funds and Hedge Funds where regular trading does not takes place	Level 3	Valued by investment managers on a fair value basis each year using clear accounting guidance and industry best practice guidance.	NAV - based pricing set on a forward pricing basis.	Valuations are affected by any changes to the value of the financial instrument being hedged against.
Direct Property	Level 3	Valued at fair value at the year-end using independent external Valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the 'RICS Red Book').	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices.
Other Unquoted and Private Equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Sensitivity of assets valued at Level 3
The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

31 March 2021	Value £'000	Potential Variance %	Value on Increase £'000	Value on Decrease £'000
Property	622,437	10.0	684,681	560,193
Unquoted UK Equity	112,763	15.0	129,677	95,849
Unquoted Overseas Equity	8,616	15.0	9,908	7,324
Hedge Funds	220,172	10.0	242,189	198,155
Infrastructure	624,109	15.0	717,725	530,493
Private Equity	1,410,704	15.0	1,622,310	1,199,098
Total	**2,998,801**			

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

15a. Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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

Values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment Assets				
Equities	3,151,560	444	61,638	3,213,642
Bonds	695,600	400	-	696,000
Pooled Investment Vehicles	1,135,675	1,783,914	2,473,438	5,393,027
Derivative Contracts	-	403,815	-	403,815
Direct Property	-	-	463,725	463,725
Loans	78,110	-	-	78,110
Short Term Cash Deposits	125,018	-	-	125,018
Other Investment Balances	144,548	-	-	144,548
Total Investment Assets	**5,330,511**	**2,188,573**	**2,998,801**	**10,517,885**
Investment Liabilities				
Amounts due to stockbrokers	(22,868)	-	-	(22,868)
Derivative Contracts	-	(442,487)	-	(442,487)
Total Investment Liabilities	**(22,868)**	**(442,487)**	**-**	**(465,355)**
Net Investment Assets	**5,307,643**	**1,746,086**	**2,998,801**	**10,052,530**

Values at 31 March 2020*	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment Assets				
Equities	2,437,351	258	45,959	2,483,568
Bonds	679,699	16,530	-	696,229
Pooled Investment Vehicles	935,866	1,480,917	2,015,660	4,432,443
Derivative Contracts	-	250,407	-	250,407
Direct Property	-	-	471,925	471,925
Loans	86,076	-	-	86,076
Short Term Cash Deposits	105,010	-	-	105,010
Other Investment Balances	181,507	-	-	181,507
Total Investment Assets	**4,425,509**	**1,748,112**	**2,533,544**	**8,707,165**
Investment Liabilities				
Amounts due to stockbrokers	(21,063)	-	-	(21,063)
Derivative Contracts	-	(79,213)	-	(79,213)
Total Investment Liabilities	**(21,063)**	**(79,213)**	**-**	**(100,276)**
Net Investment Assets	**4,404,446**	**1,668,899**	**2,533,544**	**8,606,889**

** The information for 2019/20 has been restated.*

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

2019/20 £'000		2020/21 £'000
2,377,175	Opening Balance	2,533,544
458,262	Acquisitions	709,823
(274,441)	Disposal Proceeds	(389,073)
-	Transfer into Level 3*	15,191
	Total Gains/(Losses) Included in the Fund Account:	
83,618	On Assets Sold	75,540
(111,070)	On Assets Held at Year End	53,776
2,533,544	**Closing Balance**	**2,998,801**

** An asset transferred from level 2 to level 3 in January 2021, due to exercising an option to convert the asset from a bond to an equity in the company, the equity held is unquoted.*

16. Financial Instruments

16a. Classification of Financial Instruments

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

31 March 2021	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000	Total £'000
Financial Assets				
Equities	-	-	3,213,642	3,213,642
Bonds	-	-	696,000	696,000
Pooled Investment Vehicles	-	-	5,393,027	5,393,027
Derivatives	-	-	403,815	403,815
Loans	78,110	-	-	78,110
Cash Deposits	125,018	-	-	125,018
Other Investment Balances	144,548	-	-	144,548
Long-Term and Current Assets	43,770	-	-	43,770
Total Financial Assets	**391,446**	**-**	**9,706,484**	**10,097,930**
Financial Liabilities				
Derivatives	-	-	(442,487)	(442,487)
Other Investment Balances	-	(22,868)	-	(22,868)
Current Liabilities	-	(16,552)	-	(16,552)
Total Financial Liabilities	**-**	**(39,420)**	**(442,487)**	**(481,907)**
Total Net Assets	**391,446**	**(39,420)**	**9,128,077**	**9,616,023**

31 March 2020	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000	Total £'000
Financial Assets				
Equities	-	-	2,483,568	2,483,568
Bonds	-	-	696,229	696,229
Pooled Investment Vehicles	-	-	4,432,443	4,432,443
Derivatives	-	-	250,407	250,407
Loans	86,076	-	-	86,076
Cash Deposits	105,010	-	-	105,010
Other Investment Balances	181,507	-	-	181,507
Long-Term and Current Assets	47,958	-	-	47,958
Total Financial Assets	**420,551**	**-**	**7,862,647**	**8,283,198**
Financial Liabilities				
Derivatives	-	-	(79,213)	(79,213)
Other Investment Balances	-	(21,063)	-	(21,063)
Current Liabilities	-	(16,095)	-	(16,095)
Total Financial Liabilities	**-**	**(37,158)**	**(79,213)**	**(116,371)**
Total Net Assets	**420,551**	**(37,158)**	**7,783,434**	**8,166,827**

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

16b. Net Gains and Losses on Financial Instruments

2019/20 £'000		2020/21 £'000
	Financial Assets	
(262,534)	Fair Value Through Profit and Loss	1,542,733
-	Amortised Cost - realised losses on derecognition of assets	-
(262,534)	**Total Financial Assets**	**1,542,733**
-	**Financial Liabilities**	-
-	Fair Value Through Profit and Loss	(192,166)
-	Amortised Cost - realised losses on derecognition of assets	(9,031)
-	**Total Financial Liabilities**	**(201,197)**
(262,534)	**Net**	**1,341,536**

16c. Fair Value of Financial Instruments

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

17. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

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

The Fund manages investment risks through the following measures:

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

17a. Market Risk

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

31 March 2021	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including Pooled Vehicles)	1,648	19.0	1,961	1,335
US Equities	499	20.6	602	396
Canadian Equities	11	24.0	14	8
European Equities	934	22.4	1,143	725
Japanese Equities	432	20.4	520	344
Emerging Markets Equities including Pacific Rim	912	27.9	1,167	658
Global Equities (all Equities including Pooled Vehicles)	765	19.6	915	615
UK Fixed Income Pooled Vehicles	934	8.6	1,014	853
UK Index-Linked Gilts	696	7.0	744	647
Corporate Bonds	-	7.4	-	-
Pooled Property	324	12.5	365	284
Private Equity	831	28.3	1,067	596
Hedge Funds	293	9.3	320	266
Infrastructure	611	18.6	724	497
Other Alternative Assets	413	7.9	446	380
Loans, Short-Term Deposits and Other Investment Balances	313	-	313	313
Total	**9,616**			

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

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

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

17b. Credit Risk

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

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

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

The Fund's cash holding, under its treasury management arrangements as at 31 March 2021, was £125.0 million (31 March 2020 £105.0 million). This was held on instant access with the institutions listed in the table below:

17c. Liquidity Risk

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

The Fund always ensures it has adequate cash resources to meet its commitments. The Fund has a cash balance at 31 March of £125 million. The Fund has £6,827 million in assets which could be realised in under 7 days' notice, £836 million in assets which could be realised in under 90 days' notice and £1,953 million in assets which could not be realised within a 90-day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund has a net withdrawal for 2020/21 in its dealing with members of £14 million and management expenses of £39 million, this is offset by investment income of £191 million.

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

Balances as at 31 March 2020 £'000		Rating S&P	Balances as at 31 March 2021 £'000
41,078	Lloyds Bank	Long A+ Short A-1	42,053
63,932	Northern Trust	AAAm	72,965
-	Invesco	AAAm	10,000
105,010	**Total**		**125,018**

17d. Outlook for Real Investment Returns

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

18. Funding Arrangements

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

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

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

The key elements of the funding policy are to:

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

Summary of Key whole Fund assumptions used for calculating funding target

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

19. Long-Term Assets

2019/20 £'000		2020/21 £'000
6,337	Assets due in more than one year	3,337
6,337		**3,337**

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

20. Current Assets and Liabilities

2019/20 £'000		2020/21 £'000
	Assets	
17,666	Contributions Due	14,335
-	Amounts Due from External Managers	-
7,431	Accrued and Outstanding Investment Income	5,385
15,402	Sundries	22,035
(90)	Provision for Credit Losses	(1,769)
1,212	Cash at Bank	447
41,621		**40,433**
	Liabilities	
-	Amounts Due to External Managers	-
3,222	Retirement Grants Due	4,920
511	Provisions	447
12,362	Miscellaneous	11,185
16,095		**16,552**
25,526	**Net Current Assets and Liabilities**	**23,881**

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

'Provision for Credit Losses' relates to general debtors and property rental income and is based on an assessment of all individual debts as at 31 March 2021.

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

21. Contractual Commitments

Commitments for investments amounted to £1,015 million as at 31 March 2021. (2019/20 £1,154 million). These commitments relate to Private Equity £526.61 million, Infrastructure £210.28 million, Opportunistic Credit £94.43 million, Indirect Property £167.75 million and Other Alternatives £16.53 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. Contingent Assets

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

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

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

23. Related Party Transactions

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

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.9 million. (2019/20 £4.0 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £6.6 million (2019/20 £8.9 million) and a creditor of £1.1 million as at 31 March 2021 (2019/20 £337,020).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2021 payroll are included within the debtors figure in note 20.

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

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Merseyside Fire and Rescue Authority and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

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

23a. Key Management Personnel

The Fund's senior management during 2020/21 was comprised of seven individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3), Head of Finance & Risk and Senior Manager Operations & Information Governance, the remuneration paid to the senior management during 2020/21 was £473,338 (2019/20 £471,807 for equivalent posts). In addition, employer contributions of £80,601 (2019/20 £72,756 for equivalent posts) was also met from the Fund and charged to the Fund Account.

23b. Officer Board Roles

A number of officers at MPF act in an un-remunerated board advisory capacity on investment bodies in which the Fund has an interest:

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Eclipse (£11.2 million), Aberdeen Standard Secondary Opportunities Funds (£14.0 million), BMO Asset Management (£21.4 million), GLIL (£181.5 million) and Northern Pool GP (No 1) Ltd (£86.6 million).

Owen Thorne, Portfolio Manager, acts in an un-remunerated board advisory capacity on Technology Enhanced Oil LTD (£14.5 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on seventeen investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£3.6 million), Bridges Property Alternatives IV (£6.5 million), Century Bridge China Real Estate Fund II (£5.8 million), Phoenix Asia Secured Debt Fund (£4.8 million), Alma Property Partners (£11.2 million), Barwood Property (£13.7 million), Chenavari Real Estate Fund III (£10.1 million), Newcore Strategic Situations IV (£16.1 million), Hearthstone Residential Fund I (£18.0 million), European Student Housing Fund II (£11.0 million), Locust Point Private Credit Fund (£7.8 million), Barwood Regional Growth IV (£10.5 million), Alma Property Partners II (£5.6 million), Deutsche Finance International Fund I (£6.9 million), Locust Point Private Credit Fund II (£1.2 million), Bridges Property Alternatives V (£2.8 million), Bridges Property Alternatives III, (£7.4 million).

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on ten investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£11.5 million), Standard Life Capital Infrastructure II (£9.2 million), Blackrock GRP Fund I (£7.2 million) and AMP GIF II (£13.5 million), Virtus (£27.7 million), Impax New Energy Investors III LP (£3.7 million), AMP GIF I (£31.6 million), P3P Hoddesdon LP (£6.4 million), P3P NI LP (£16.3 million) and MEIF6 (£6.2 million).

24. Additional Voluntary Contribution Investments

2019/20 £'000		2020/21 £'000
	The Aggregate Amount of AVC Investments is as follows:	
2,003	Utmost Life*	2,007
5,061	Standard Life	5,374
9,312	Prudential	
16,376		**7,381**
	Changes During the Year were as follows:	
5,134	Contributions	
4,531	Repayments	
(237)	Change in Market Values	

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

Statement of Responsibilities

The Authority's Responsibilities

The Council as Administering Authority of Merseyside Pension Fund is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer;
- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2021.

In preparing this statement of accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

The Section 151 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Section 151 Officer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2021, and its income and expenditure for the year then ended.

Shaer Halewood
Section 151 Officer
September 2021

Audit Report

To be inserted on receipt from External Audit

To be inserted on receipt from External Audit

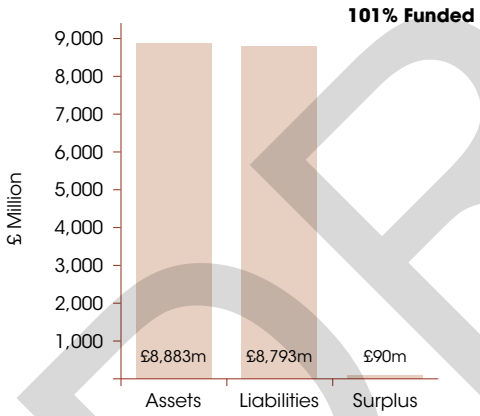
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2021 Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,883 million represented 101% of the Fund's past service liabilities of £8,793 million (the 'Solvency Funding Target') at the valuation date. The surplus at the valuation was therefore £90 million.



The valuation also showed that a Primary contribution rate of 17.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 13 years, and the total initial recovery payment (the 'Secondary rate' for 2020-2023) is an addition of approximately £0.2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For Past Service Liabilities (Solvency Funding Target) per annum	For Future Service Liabilities (Primary rate of contribution) per annum
Rate of return on investments (discount rate)	4.15%	4.65%
Rate of pay increases (long-term)*	3.9%	3.9%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4%	2.4%

** allowance was also made for short-term public sector pay restraint over a 4 year period.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The 'McCloud judgment' refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £65million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum. To the extent that employers have opted to pay additional contribution over 2020/23 in relation to the McCloud judgment, these emerge in the Secondary Contribution Rate figures quoted above.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but the Administering Authority has consulted on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020 per annum	31March 2021 per annum
Rate of return on investments (discount rate)	2.4%	2.1%
Rate of CPI Inflation / CARE Benefit revaluation	2.1%	2.7%
Rate of pay increases*	3.6%	4.2%
Rate of increases in pensions in payment (in excess of GMP) / Deferred Revaluation	2.2%	2.8%

** This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.*

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £11,763 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£279 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£3 million (this includes any increase in liabilities arising as a result of early retirements/ augmentations). There was also an increase in liabilities of £1,630 million due to 'actuarial losses' (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £13,675 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this in the future to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to, a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2021

Clive Lewis
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2021

Appendix A

Scheme employers with active members as at 31 March 2021

Scheduled Bodies (34)	**Contributions Received**		
	Employers £'000	**Deficit/(Surplus) £'000**	**Employees £'000**
Billinge Chapel End Parish Council	4	1	1
Carmel College	369		118
Chief Constable (CC)	11,271		4,392
Cronton Parish Council	3	0	1
Eccleston Parish Council	5		1
Edsential SLE	219		63
Halewood Town Council	38	-20	14
Hugh Baird College	892	182	279
Knowsley M.B.C.	32,763	1,121	5,190
Knowsley Town Council	33	-18	9
LCRCA - Liverpool City Region Combined Authority	1,091		614
Liverpool City Council	84,468	2,526	13,864
Liverpool John Moores University	6,730		2,903
Liverpool Streetscene Services Ltd	983		288
Maghull Town Council	43		16
Merseyside Fire & Rescue Authority	1,691	-157	641
Merseyside Passenger Transport Executive (MPTE)	3,735		1,577
Merseyside Waste Disposal Authority	200		80
Office of the Police and Crime Commissioner (OPCCM)	129	30	56
Prescot Town Council	15		8
Rainford Parish Council	11		3
Rainhill Parish Council	3		1
School Improvement Liverpool Ltd	916		395
Sefton M.B.C.	47,056	843	6,833
Shared Education Services Ltd	410	-211	118
Southport College	488	-54	147
St. Helens College	955	-412	333
St. Helens M.B.C.	14,493	-1,499	5,372
The ACC Liverpool Group Ltd	622		324
The City of Liverpool College	861	-282	272
Whiston Town Council	34	-8	11
Wirral Council	20,607	-1,757	7,911
Wirral Evolutions Ltd	493		143
Wirral Metropolitan College	850	-75	269

Scheduled Bodies (Academies) (104)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Academy of St Francis of Assisi	182		62
Alsop High School	111		33
Bellerive FCJ Catholic College	120	35	40
Birkdale High School	97	40	32
Birkenhead 6th Form College (Academy)	252	28	104
Birkenhead High School Academy	186	20	62
Bishop Martin CE Primary	32	23	9
Blacklow Brow School (Academy)	51	20	17
Blue Coat School (Academy)	154	55	54
Brackenwood Jr School	11		3
Calday Grange Grammar School	206	16	73
Chesterfield High School	125	40	42
Childwall Sports & Science Academy	109	68	41
Christ Church Moreton Primary (Academy)	61	28	20
Church Drive Primary	95	39	29
Churchtown Primary (Academy)	155	81	48
Co-op Academy Bebington	169		57
Co-op Academy Portland	33	19	11
Co-op Academy Woodslee	62	15	19
Cronton CE Primary (Academy)	50	20	16
Croxteth Community Primary School (Academy)	72	24	23
De La Salle Academy	79	40	26
Deyes High School	212	98	72
Egremont Primary School (Academy)	68	42	23
Everton Free School	58	3	24
Finch Woods Academy	67	22	19
Formby High School	144	74	46
Garston CE Primary School (Academy)	48	18	15
Great Meols Primary School (Academy)	72	31	23
Greenbank High School	174	54	59
Halewood Academy Centre for Learning	178	149	56
Halewood CE Primary (Academy)	48	24	15
Halsnead Primary School (Academy)	66	37	21
Harmonize Academy	51		17
Hawthornes Free School	89	5	27
Heygreen Community Primary (Academy)	61	24	26
Hilbre High School (Academy)	206	100	70
Hillside High School (Academy)	126	153	40
Holy Trinity CE Primary (Academy)	52	34	15

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Hope Academy	165	69	60
Huyton with Roby CE Primary (Academy)	85	41	22
Kew Woods	101	5	29
Kings Leadership Academy (Liverpool)	103	25	36
Kirkby High School	195	136	66
Knowsley Lane Primary School (Academy)	42	33	14
LDST - Liverpool Diocesan Schools Trust (Academy)	32	6	24
Litherland High School (Academy)	129	101	46
Litherland Moss Primary (Academy)	51	20	16
Liverpool College (Academy)	129	2	47
Liverpool Life Science UTC	71	0	31
Lord Derby Academy	179	93	64
Maghull High School	118	51	39
New Park Primary (Academy)	167	98	64
North Liverpool Academy	353	35	141
Nutgrove Methodist Aided Primary	35	15	12
Oldershaw Academy	225	228	72
Our Lady of Pity (Academy)	85	29	24
Parish CE Primary (Academy)	51	22	18
Park View Academy	70	39	23
Poulton Lancelyn Primary School (Academy)	63	23	19
Prenton High School for Girls	132	160	46
Rainford High School (Academy)	172	73	65
Rainhill High School	184	95	72
Rainhill St Anns CE Primary School (Academy)	80	33	23
Range High School	180	71	59
Roscoe Primary (Academy)	77	40	23
Shoreside Primary School	42	15	11
St Andrews CE Primary (Academy)	51	22	14
St Anselm's College	105	9	34
St Edward's College	132	42	46
St Francis Xavier's College (Academy)	178	67	55
St Gabriel's CE Primary	40	5	15
St James' Primary School (Academy)	31	11	12
St John Plessington Catholic College	228	59	72
St Joseph's Primary (Academy)	70	25	22
St Margaret's Church of England Academy	143	51	48
St Mary & St Thomas CE Primary School (Academy)	78	30	27
St Mary's Catholic College	210	129	74

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
St Michael's C of E High School (Academy)	152	91	52
St Silas C of E Primary School (Academy)	66	27	29
St Thomas C of E Primary (Academy)	36	18	10
Stanley High School (Academy)	115	64	35
Stanton Road Primary School (Academy)	69	25	20
Sylvester Primary Academy	52	15	15
The Academy of St Nicholas	160	145	57
The Beacon C E Primary School (Academy)	53	29	19
The Belvedere Academy	127	10	52
The Birkenhead Park School	120	125	40
The Prescot School (Academy)	132	83	41
The Studio (Academy)	24	-1	9
The Sutton Academy	179	90	73
Town Lane Infant School (Academy)	66	26	20
Townfield Primary	134	44	46
Uni of Liverpool Maths School	8		3
Upton Hall School	123	30	41
Weatherhead High School	216	66	82
West Derby School (Academy)	179	94	58
West Kirby Grammar School	107	40	34
Whiston Willis Primary (Academy)	67	33	18
Willow Tree Primary	31	11	10
Wirral Grammar Boys (Academy)	102	37	36
Wirral Grammar School for Girls	113	32	32
Woodchurch High School	386	126	130
Yew Tree Primary Academy	62	35	20

Admission Bodies (Community) (24)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Age Concern - Liverpool	8	-8	2
Arriva North West	1,067	8,092	154
Association of Police and Crime Commissioners	156	15	75
Birkenhead School (2002)	30	-21	9
Care Quality Commission	18		6
Catholic Children's Society	16	-5	2
CDS Housing	708		160
Citizens Advice Liverpool	20		3
Cobalt Housing Ltd	96		29
Commutual	39		11
Glenvale Transport Ltd/Stagecoach	89	-89	25
Greater Hornby Homes	13		4
Greater Merseyside Connexions (Career Connect)	703	-633	178
Liverpool Hope University	60	-60	7
Local Government Association	1,130		743
Merseyside Lieutenancy	13		5
North Huyton Communities Future	118		9
Partners Credit Union	129	13	24
Port Sunlight Village Trust	23	-23	8
South Liverpool Housing Ltd	117	253	29
Torus 62 Ltd	2,241	0	706
Welsh Local Government Association	488	0	212
Wirral Autistic Society (Autism Together)	753	-567	128
Wirral Partnership Homes Ltd (Magenta Living)	1,926	-1,193	775

Admission Bodies (Transfer) (47)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Absolutely Catering (Holy Family)	27		8
Absolutely Catering (Longmoor)	5		1
Absolutely Catering (St Oswald's)	2		0
Addaction (Sefton)	14		4
Agilisys Limited	7	-7	2
Agilisys Ltd (Sefton)	255	23	80
Balfour Beatty PFI SEN School	17	-17	4
Balfour Beatty Workplace Ltd	62	-62	16
Bouygues E&S FM Uk Ltd	21	0	5
Bulloughs	2	0	1
Caterlink Ltd	17	17	4
Change Grow Live	14	-3	4
City Health Care (St Helens)	145	-2	50
Compass (Scolarest) Liverpool Schools	3	8	1
Compass (Scolarest) Wirral Schools	32	-23	8
CWP (NHS)	608	217	196
Dolce Ltd	3		1
Friends of Birkenhead Council Kennels	10		3
Fun 4 Kidz	2		0
Graysons Education Limited	14		3
Hochtief Liverpool Schools	18	1	4
Hochtief Wirral Schools	32	-5	8
Huwel (Sherpa)	5		1
Interserve (Facilities Management) Ltd	4		1
Kingswood Colomendy Ltd	8		2
Knowsley Youth Mutual Ltd	76	4	24
L&T FM (Chroda)	14		4
Mellors Catering - Birkdale	13		3
Mellors Catering - Rainhill	10	-2	2
Mellors Catering - St Anns	6		1
Mellors Catering - St Mary & St Thomas	1	3	0
Mellors Catering - St Paul & St Timothy	3	2	1
Orian Solutions	14	-3	3
Sanctuary Home Care Ltd	24		6
Sefton New Directions Ltd	584		162
Siemens Mobility Ltd	18	-584	5
SSE Contracting Ltd	50	-3	15
Tarmac Trading Ltd	33		10
Taylor Shaw - Great Meols	5		1
Taylor Shaw - Hugh Baird	2	-2	1

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Taylor Shaw - Raeburn	4	1	1
Taylor Shaw - Range	10		2
Taylor Shaw - St Andrews	1	-2	0
Veolia ES Merseyside & Halton	91		27
Volair Ltd	320	-91	111
WCFT (NHS)	924		317
WIRED Ltd	22	61	6
Sceme Employers where contributions have been received during 2020/21 but they had no Active Scheme Members as at 31 March 2021			
Arvato	1		0
Berrybridge Housing Ltd	8	2,000	3
Castlerock Recruitment Group Ltd (CRG)	5		2
Compass Contract Services (UK) Ltd	11	8	2
Emslie Morgan		1,025	
Lee Valley Housing Association Ltd	3	886	1
Mersey Waste		274	
Studio @ Deyes Academy	3	3	1
Totals	**257,619**	**14,500**	**60,633**

Appendix B

Pensions Committee Items

2 November 2020

Audit Plan and Addendum

Audit Findings Report

MPF Annual Report & Accounts 2019/20

Statement of Accounts / Letter of Representation

Pension Board Review 2019/20 and Work Plan 2020/21

Investment Strategy Proposals

LGPS Update

Proposed McCloud Judgment Remedy and LGPS consultation

Retail Prices Index Reform

Investment Performance

Local Pension Board Minutes

National Knowledge Assessment

Northern LGPS Update

Working Party Minutes

2 February 2021

LGPS Update

FSS Policy Updates

Authorised Signatories

Treasury Management Policy

Members' Learning & Development 2021

Local Pension Board Minutes

Northern LGPS Update

Working Party Minutes

29 March 2021

LGPS Update

MPF Budget 2021/22

Overpayment of Pensions Policy

Non-Recovery of Pension Overpayments

Property Portfolio Rent Arrears and Write-offs

Working Party Minutes

Attendance Record 2020 - 2021

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 JUL	4 NOV	3 FEB	30 MAR	14 NOV	25 FEB	6 JUN	18 SEP	14 NOV	25 FEB
Cllr Pat Cleary (Chair)	•	•	•	*	•	•	•	•	•	•
Cllr Geoffrey Watt (Spokesperson)	•	•	•	*	•	•	•	•	•	•
Cllr George Davies (Spokesperson)	•	•	•	*		•	•	•	•	•
Cllr Chris Carubia			•	*		•	•			•
Cllr Andrew Gardner	•	•		*			•		•	
Cllr Kathy Hodson				*						
Cllr Tony Jones	•	#	•	*	•	•	•		•	•
Cllr Brian Kenny	•	•	•	*				•		
Cllr Cherry Povall, JP	#	•	•	*		•	•	•		•
Cllr Stuart Wittingham			•	*			•	•		
Cllr Ian Byrne (Liverpool City Council Co-Optee)				*			•	•		
Cllr John Fulham (St. Helens MBC Co-Optee)	•			*		•				•
Cllr Jayne Aston (Knowsley MBC Co-Optee)	•			*						
Cllr Paulette Lappin (Sefton MBC Co-Optee)	•	•	•	*			•			
Roger Bannister (UNISON Co-Optee)	•	•	•	*		•	•	•	•	•

Deputy Attended
* Meeting Cancelled

Conferences

	LGC Celtic Manor	PLSA	MPF Annual Conference	LAPFF Annual Conference	LGPS Governance Conference	LGC Investment Seminar	PLSA Gloucestershire	Fundamentals Training
	5 - 6 SEP	16 - 18 OCT	29 NOV	4 - 6 DEC	23 - 24 JAN	27 - 28 FEB	18 - 20 MAY	17 OCT - 6 NOV
Cllr Pat Cleary (Chair)	•							•
Cllr Geoffrey Watt (Spokesperson)	•					•		
Cllr Chris Carubia	•	•			•	•		
Cllr Andrew Gardner						•		
Cllr Tony Jones								
Cllr Brian Kenny		•				•	•	
Cllr Cherry Povall, JP	•	•				•		
Cllr Paulette Lappin (Sefton MBC Co-Optee)								
Roger Bannister (UNISON Co-Optee)		•		•			•	

Appendix C

Information Contacts

Position	Name	Telephone number
Director of Pensions	Peter Wallach	0151 242 1390
Head of Pensions Administration	Yvonne Murphy	0151 242 1390

Area	Name	Telephone number
Accounts (Compliance, Financial Control and Management)	Donna Smith	0151 242 1390
Investments (Fund Assets' Management)	Adil Manzoor	0151 242 1390
Employer Compliance and Membership (Transfers, Divorce, Admissions, Data quality assurance)	Sue Roberts/Paula Heaton	0151 242 1390
Benefits/Payroll (Retirement Calculations and Payments)	Barbara King/Keith Higgins	0151 242 1390
Operations (IT/Communications) (Systems Support, MyPension, Website, Events)	Guy Hayton	0151 242 1390

Resolution of Disputes		
Employer Decisions	Head of Pensions Administration	0151 242 1390
Fund Decisions	Section 151 Officer	0151 666 3407

Scheme Employers' Contacts		
Arriva North West	Alison Ashcroft	07855 104975
Knowsley MBC	Jaci Dick	0151 443 5161
Liverpool City Council	Richard Arnold	0151 233 0375
Liverpool John Moores University	Danielle Williamson	0151 231 8756
Merseyside Fire & Rescue Service	Mike Rea	0151 296 4245
Merseytravel (MPTE)	Sue Highton	0151 330 1199
Merseyside Waste Disposal Authority	Jane Nolan	0151 255 2537
Office of the Police and Crime Commissioner for Merseyside (OPCCM)	Vicky Osayande	0151 777 7053
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Sarah Myers	0174 467 6627
Wirral Council	Matthew Slater	0151 691 8529

Merseyside
PENSION FUND

Report & Accounts 2020/21

Merseyside Pension Fund
Castle Chambers
43 Castle Street
Liverpool
L2 9SH

Tel: 0151 242 1390
Email: mpfadmin@wirral.gov.uk
www.merseysidepensionfund.org.uk

Administering Authority Wirral Council

WIRRAL

199MAY21GB

WIRRAL COUNCIL

LOCAL PENSION BOARD

1 DECEMBER 2021

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

REPORT SUMMARY

This report provides Board Members with a copy of a report on developments in the Local Government Pension Scheme (LGPS) taken to Pensions Committee since the previous Board meeting.

RECOMMENDATION

That the Pension Board be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a requirement for Members of the Board to be kept up to date with legislative developments as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. There is a statutory requirement for the Board to be kept up to date with legislative developments.

3.0 BACKGROUND INFORMATION

3.1 The accompanying report updates Members that on 15 October 2021, the Scheme Advisory Board (SAB) published the result of its cost management process for the 2016 Scheme Valuation, following publication of amendments to the HM Treasury (HMT) Directions on 7 October 2021.

It also covers the HMT response to its consultation on the proposed reforms to the cost control mechanism, which emerged due to industry concern that the mechanism was not operating in line with its original objectives; in that it would only be triggered by extraordinary, unpredictable events.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. The accompanying report sets out the financial implications of changes in the LGPS.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report. Any indirect implications for the Fund are set out in the accompanying report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

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

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in the accompanying report.

9.0 **EQUALITY IMPLICATIONS**

9.1 The relevant implications are set out in the accompanying report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

REPORT AUTHOR: **Yvonne Murphy**
(Head of Pensions Administration) telephone:
(0151) 242 1333
email: yvonnemurphy@wirral.gov.uk

APPENDICES

LGPS update report

BACKGROUND PAPERS

The Public Service Pensions Act 2013

LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The LGPS Update is a standing agenda item on Pension Board.	

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WIRRAL

PENSIONS COMMITTEE

29 NOVEMBER 2021

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

REPORT SUMMARY

This report updates Members that on 15 October 2021, the Scheme Advisory Board (SAB) published the result of its cost management process for the 2016 Scheme Valuation, following publication of amendments to the HM Treasury (HMT) Directions on 7 October 2021.

It also covers the HMT response to its consultation on the proposed reforms to the cost control mechanism, which emerged due to industry concern that the mechanism was not operating in line with its original objectives; in that it would only be triggered by extraordinary, unpredictable events.

RECOMMENDATION

That the Pensions Committee be recommended to note the results of the employer cost control element of the 2016 Scheme Valuation and the impacts of the impending changes to the cost control mechanism to take effect for the 2020 Scheme Valuation.

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

BACKGROUND INFORMATION

3.0 2016 Cost Management and McCloud Costs

3.1 Members last considered the Cost Management Process of the reformed Career Average Revalued Earnings (CARE) Local Government Pension Scheme (LGPS) and the impact of the proposed McCloud remedy on the cost of the scheme at its meeting of 22 June 2021, minute 8 refers

3.2 Members may recall that at the implementation of the 2014 scheme, the target scheme cost was set at a rate of 19.5% of pay. Any change to this target scheme cost is to be measured by a national valuation carried out by the Government Actuary's Department every four years.

The LGPS is subject to two cost management processes; one relating to a process managed by HMT and an additional LGPS specific one managed by SAB.

3.3 The change in costs is expected to be shared between members and employers, with employers bearing the costs and risks from external factors such as changes in discount rates and price inflation. Members would bear the costs and risk of wage growth, changes in life expectancy, ill health retirement experience and commutation of pension.

3.4 The original result of the 2016 SAB cost management process was a reduction in cost of 0.9% of pay and a package of measures corresponding to 0.9% increase in employer costs were agreed. However, the process was subsequently paused due to the McCloud judgment.

3.5 The Written Ministerial Statement made by Luke Hall on 13 May 2021 confirming the key LGPS changes required to remove the unlawful age-restricted underpin protection, provided sufficient certainty regarding cost for HMT to publish the Public Service Pensions (Valuation and Employer Cost Cap) (Amendment) Directions 2021 on 7 October 2021. The Directions confirmed that costs resulting from McCloud will need to be treated as member costs within the cost management process.

3.6 As a result, on 15 October, SAB published the result of its cost management process for the 2016 Valuation, in which it agreed to spread McCloud costs over a ten-year period, acknowledging that this timeframe coincides with the point at which 60% of qualifying members are expected to have left the scheme.

3.7 The remedy results in an outcome of 19.4 per cent against the target cost of 19.5 per cent of pensionable pay. Despite the slight shortfall in cost, SAB will not recommend any further scheme changes as a result of the 2016 cost management process.

3.8 However, as part of a separate process, SAB plan to revisit the Tier Three ill Health provisions and the contribution rates for the lowest paid members - with the objective of bringing forward recommendations in these areas for future scheme changes.

3.9 SAB has also highlighted to the Minister that exercising its legislative duty to complete the process does not diminish its concerns that the Government has included McCloud costs as member costs.

HMT Consultation Response on the Cost Control Mechanism

3.10 HM Treasury requested the Government Actuary Department (GAD) to review the cost control process following industry concern that the mechanism was not operating in line with its original objectives, that it would only be triggered by extraordinary, unpredictable events.

3.11 As a response to GAD's findings, a consultation was issued on 24 June 2021 on the understanding that the outcome of the consultation will not impact on the 2016 cost control valuations.

3.12 HM Treasury published its response on 4 October 2021 confirming it will proceed with all three proposed reforms:

- moving to a reformed scheme only design so that the mechanism only considers past and future service in the reformed schemes. Costs related to legacy schemes are excluded

- the cost corridor will be widened from two per cent to three per cent of pensionable pay

- introducing an economic check so that a breach of the mechanism will only be implemented if it still would have occurred had the long-term economic assumptions been considered.

3.13 The Government is aiming to implement all three proposals in time for the 2020 valuations and will work with the Department for Levelling Up, Housing and Communities (DLUHC) and other LGPS stakeholders to consider:

- the most appropriate way to implement the reformed scheme only design in the LGPS (including how to treat the underpin)

- how the changes will feed through to SAB's own cost management process within the LGPS

4.0 FINANCIAL IMPLICATIONS

4.1 HM Treasury decision to consider only the reformed scheme in the cost control mechanism and the widening of the cost corridor means that, based on GAD's analysis, the mechanism is expected to breach around once every 40 years on average. Cost breaches will therefore be less frequent, but more material when they occur - providing reduced cost control whilst member benefits will be more stable.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report. Section 12 of the Public Service Pensions Act 2013 provides the legal framework for a 'cost control mechanism'.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 SAB made the decision not to recommend any scheme changes despite the slight shortfall in the target scheme cost, in recognition that having to backdate any changes to April 2019 would be an additional burden on already overstretched pension administration teams.

6.2 SAB has requested that funding is made available to LGPS Funds in respect of the costs of required enhancements to pension administration systems necessary to deliver the McCloud remedy, as these directly result from the actions of Government.

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 DLUHC and HMT undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and the LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising from this report.

REPORT AUTHOR: **Yvonne Murphy**
(Head of Pensions Administration)
Telephone: (0151) 242 1333
email: yvonnemurphy@wirral.gov.uk

BACKGROUND PAPERS

Scheme Advisory Board Website – Cost Management Information
https://www.lgpsboard.org/index.php/projects/cost-management

Public Service Pensions: The Cost Control Mechanism
https://researchbriefings.files.parliament.uk/documents/SN06971/SN06971.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

The LGPS Update is a standing agenda item on Pensions Committee	

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WIRRAL

LOCAL PENSIONS BOARD

1 DECEMBER 2021

REPORT TITLE:	**UPDATED INVESTMENT STRATEGY STATEMENT**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board Members with a copy of a report to Pensions Committee recommending the approval of a revised Investment Strategy Statement (ISS).

RECOMMENDATION

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 There is a requirement for Members of the Board to be kept up to date with legislative developments as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options as there is a need for the Pension Board to be informed of legislative developments and a statutory requirement to consult them on the ISS.

3.0 BACKGROUND INFORMATION

3.1 The accompanying report provides an overview of the legislative framework with which an Investment Strategy Statement (ISS) should comply. The ISS was last reviewed in February 2020 following a change to the Fund's strategic asset allocation. This revision follows the approval at September's Pensions Committee of the Northern LGPS Responsible Investment policy and is intended to reflect changes in legislation, guidance, best practice and, of course, that it is consistent with the Northern LGPS RI Policy.

3.2 Members are also reminded that the guidance issued by the Department for Levelling Up, Housing and Communities states that in formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. The accompanying report sets out the financial implications of the ISS in relation to MPF's assets and liabilities.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report. Any indirect implications for the Fund are set out in the accompanying report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

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

7.0 RELEVANT RISKS

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

7.2 A failure to formulate, publish and maintain an ISS would be a breach of the administering authority's statutory obligations.

8.0 ENGAGEMENT/CONSULTATION

8.1 The relevant consultations are set out in the accompanying report.

9.0 EQUALITY IMPLICATIONS

9.1 The relevant implications are set out in the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising directly from this report. The ISS sets out the Fund's approach to the management of climate risk.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising directly from this report. The ISS contains scope for the Pension Fund to undertake investment in regeneration projects in the Liverpool City Region.

REPORT AUTHOR: **Peter Wallach**
(Director of Pensions) telephone: (0151) 242 1309
email: peterwallach@wirral.gov.uk

APPENDICES

Updated Investment Strategy Statement and report

BACKGROUND PAPERS

The Public Service Pensions Act 2013
LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pension Board	**February 2020**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

29 NOVEMBER 2021

REPORT TITLE:	**UPDATED INVESTMENT STRATEGY STATEMENT**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Members with an updated Investment Strategy Statement which has been revised following legislative and policy developments, changes to guidance and the approval, in September, of the Northern LGPS Responsible Investment (RI) policy.

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the Investment Strategy Statement.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.2 Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require a pension fund to publish an investment strategy statement (ISS).

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options. There is a statutory requirement for an ISS to be formulated, published and maintained by administering authorities.

3.0 BACKGROUND INFORMATION

3.1 In September's report to this Committee regarding the Northern LGPS Responsible Investment policy, officers undertook to revise Merseyside Pension Fund's (MPF) Investment Strategy Statement and bring a report on it to a future Committee.

3.2 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

3.3 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

3.4 Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years.

3.5 The ISS is intended to provide a prudential framework within which administering authorities can set their policy on asset allocation, risk and diversification, amongst other things. It is formulated in conjunction with the

Funding Strategy Statement which identifies how each Fund employer's present and future pension liabilities are to be met.

3.6 Since the Fund's ISS was first issued, there have been changes in several areas and the strategy has been updated to reflect these matters.

- Change to guidance: guidance amended 12 July 2017: guidance to regulation 7(2)(e) on page 9 to comply with the order of the High Court judgment on 22 June 2017: subsequently clarified by ruling of the Supreme Court on 20 April 2020.
- Development and approval of MPF's Responsible Investment beliefs in 2019 and incorporation of beliefs into investment strategy review process.
- Legislative and policy developments in respect of Stewardship and Climate risk, in particular.
- Approval of the revised Northern LGPS Responsible Investment (NLGPS RI) policy in 2021.

3.7 The ISS is intended to set out the high-level principles that govern the Fund's investment strategy. Those principles influence or are developed in some of the Fund's policies and procedures such as the Funding Strategy Statement, NLGPS RI policy and internal Compliance Manual where officers in conjunction with the Fund's advisors put them into effect. In the area of climate risk, for example, officers are currently working with advisors to develop short and medium term milestones in the alignment of the Fund's investment strategy with the Net Zero Paris goals.

8.8 The implementation, monitoring and reporting of outcomes is to the quarterly Investment Monitoring Working Parties. It is proposed that this is enhanced in respect of the RI policy so that the NLGPS RI reports are included in addition to the LAPFF updates and details of engagements specific to MPF's investments. Information on communications from stakeholders and scheme members will also be appended.

4.0 FINANCIAL IMPLICATIONS

4.1 The Fund's investment strategy is fundamental to the management of its liabilities and its investment performance. In particular it provides a prudential framework within which administering authorities can set their policy on asset allocation, risk and diversification, amongst other things. It is formulated in conjunction with its Funding Strategy Statement.

4.2 The development, implementation and monitoring of policies in support of the ISS will have costs which can be estimated and advised as policies develop. Additionally, ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report. There is a statutory requirement for an LGPS fund to formulate, publish and maintain an Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 The assessment and monitoring of investments in relation to ESG factors is integral to the ongoing management of the fund's assets. As the scope of the fund's RI policy expands, greater demands will be placed on staff and associated resources. By collaborating with our pooling partners and other investors, these costs can be defrayed to a certain extent but RI remains an area of growing activity and interest.

7.0 RELEVANT RISKS

7.1 A failure to formulate, publish and maintain an ISS would be a breach of the administering authority's statutory obligations.

7.2 The Fund's investment strategy is a key element of the management of its investment risk.

7.3 An effective RI policy can assist in managing financial and reputational risks to the fund.

8.0 ENGAGEMENT/CONSULTATION

8.1 The strategy was discussed with elected members on 9 November, shared with the Pension Board and the major employers. Additionally, in relation to regulation 7(2)(e) the Northern LGPS RI policy was presented to the Investment Monitoring Working Party on 15 September and to the Pension Board ahead of this Committee meeting.

9.0 EQUALITY IMPLICATIONS

9.1 DLUHC guidance is the subject of an EIA. The strategy includes reference the NLGPS RI policy which draws on international standards such as the UN Sustainable Development Goals, the UN guiding principles on business and human rights and IIGCC's Net Zero Investment Framework. It is intended to maximise the positive impact good corporate practice can have on the fund's stakeholders, particularly the communities and beneficiaries residing in the North of England.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 This strategy makes explicit reference to environment and climate implications as financially material to long-term performance of investments.

REPORT AUTHOR: **PETER WALLACH**
DIRECTOR OF PENSIONS
telephone (0151) 242 1309
email peterwallach@wirral.gov.uk

APPENDICES

MPF's Investment Strategy Statement

BACKGROUND PAPERS

Local Government Pension Scheme: Guidance on preparing and maintaining an Investment Strategy Statement. Local government pension scheme: guidance on preparing and maintaining an investment strategy statement - GOV.UK (www.gov.uk)

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	January 2019

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Merseyside Pension Fund

Investment Strategy Statement

Wirral Metropolitan Borough Council
As approved by Pensions Committee on

Introduction

This Investment Strategy Statement has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and with regard to relevant guidance. It is reviewed regularly and not less than every three years.

Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential "downside" effects of financial market volatility.

Investment Strategies

The Fund has implemented a choice of investment strategies ("investment buckets") for employers. These are:

- Higher risk
- Medium risk
- Lower risk

The main Fund investment strategy applies to the "higher risk bucket". The "medium risk bucket" and "lower risk bucket" provide the option to reduce the level of investment risk that employers take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket's initial investment strategy is 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the main Fund investment strategy but in the different proportions.

The lower risk bucket is made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, re-investment risk and any other reasonable margins of prudence deemed appropriate.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund's strategic asset allocation in the table below.

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %[1]	Control Range
Equities	**43**		**33.0-58.0**
UK Equities		**15.2**	
Overseas Equities		**27.8**	
US		4.3	
European (ex UK)		6.5	
Japan		3.2	
Asia Pacific		3.2	
Emerging Markets		4.9	
Global		5.7	
Fixed Income	**17**		**13.0-23.0**
UK Gilts		4	
UK Indexed Linked Gilts		9	
Corporate Bonds		4	
Property	**11**		**8.0-14.0**
Alternatives	**28**		**23.0-33.0**
Private Equity		6	
Hedge Funds		4	
Private Credit		7	
Infrastructure		11	
Cash	**1**		**0.0-6.0**
Total	**100**		

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Strategic Advisor and Independent Advisors under the auspices of its Medium-Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The Fund's investment strategy is underpinned by certain core beliefs pertaining to individual asset classes *inter alia:*

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets
- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments

[1] The % weights shown reflect the current target implementation in equities and fixed income. The Fund's implementation approach to these asset classes is the subject of ongoing review of the investment strategy and these weights may subsequently be revised.

- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk
- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited
- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term
- That environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term (the Fund's Responsible Investment Beliefs are expanded in the Fund's RI policy)
- Integration of ESG factors improves investment decisions in the long-term
- The risks arising from climate change are significant and must be managed proactively

Under the triennial review, the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;
- Maintain sufficient assets to pay all benefits as they arise;
- Implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;
- Provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

The Fund's Strategic Advisor provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

In addition to providing a review of the Fund's investment strategy, the Strategic Advisor also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter-term strategic time horizon, the Strategic Advisor also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium-Term Tactical Asset Allocation framework in which the Strategic Advisor advises and makes recommendations on the magnitude of medium- term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

The suitability of particular investments and types of investments

The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes

of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed regularly by the Fund's Investment Management Working Party (IMWP) and its Independent Advisors to ensure that returns, risk and volatility are all appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Strategic Advisor undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A report is produced by the Strategic Advisor and presented to the IMWP on a quarterly basis for discussion.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund recognises that there are various investment and operational risks to which any pension scheme is subject and gives qualitative and quantitative consideration to such risks through the Pensions Committee, Local Pension Board and the Governance & Risk Working Party.

The Fund has a clearly determined approach to its risk tolerance with the objective of optimising the returns from its global investment activities within reasonable risk parameters.

Accordingly, as documented in the Fund's Funding Strategy Statement, the Actuary has identified key risks in the following areas:

- Financial
- Demographic
- Regulatory
- Governance
- Climate change

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Strategic Advisor to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets. In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets

such as property, private equity, private credit, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by periodically correcting positions created by market movements in accordance with the advice of its Strategic Advisor and consultation with its Independent Advisors.

The Fund's approach to pooling investments including the use of collective investment vehicles and shared services

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern LGPS ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government (now DLUHC) provided confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

The principal benefits of pooling for the funds in the Northern LGPS are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. Following detailed discussions and consideration of professional advice, it was agreed in March 2017 by each of the participating funds that in order to meet the Reduced Costs and Excellent Value for Money criterion set by Government most effectively, the Northern LGPS should focus on collective investment in private market assets such as private equity and direct infrastructure. Subject to value for money requirements being fulfilled, private equity and direct infrastructure investments are made via joint ventures and partnerships to enable material cost savings from an early stage. Such structures are in all cases compliant with relevant financial services law. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) are being run-off on a segregated basis.

The Scale and Strong Governance and Decision-Making criteria are met by:

i) a Joint Committee providing monitoring and oversight of the operations of the Northern LGPS with the Joint Committee constituted so as to separate elected members from any manager selection decisions and;
ii) appointing an FCA regulated common custodian for the Pool, which has custody of all the pool's actively managed listed assets (i.e. internally and externally managed equities and bonds) and acts as master record-keeper for all pool assets.

Strategic asset allocation continues to be set by each fund's pension committee with the selection of individual investments and investment managers for external mandates carried out on a pooled

basis by appropriately qualified and experienced officers, operating under the legal framework of specialist investment vehicles where appropriate.

All public-market assets and new commitments to private equity and direct infrastructure are monitored and overseen by the Northern LGPS Joint Committee with all assets other than day-to-day cash used for scheme administration purposes being held under the common custody agreement. Day-to-day cash is assumed to be 1% of total assets for each fund.

The Pool will procure the following services, as required, on behalf of the participating funds

- External fund management for public-market mandates
- Common custodian for Pool
- Investment management systems
- Performance analytics
- Responsible Investment advisory services
- Other professional advice

The Northern LGPS Joint Committee is created via the approval of an inter-authority agreement between the administering authorities to the participating funds. The role of the Joint Committee is to:

i) provide monitoring and oversight of the Northern LGPS to ensure that the pool is effectively implementing the participating authorities' strategic asset allocation decisions;
ii) oversee reporting to the participating authorities' pension committees.
iii) act as a forum for the participating authorities to express the views of their pension committees;
iv) ensure segregation of duties in investment decision-making between elected members and officers;
v) monitor performance of portfolios;
vi) monitor the appointment of investment managers

Reporting processes of the Northern LGPS include regular written reports on the performance of Northern LGPS investments to the Joint Committee, which are discussed at formal meetings. The Joint Committee will not be undertaking any regulated activities.

The Northern LGPS' governing documentation grants the Joint Committee and each administering authority certain powers regarding the operation of the Northern LGPS, which can be used to ensure the effective performance of Northern LGPS. MPF's approach to pooling, set out above, will be reviewed periodically to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

A report on the progress of asset transfers will be made to the Scheme Advisory Board on at least an annual basis.

How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

The Fund's Statement of Beliefs on Responsible Investment is available at: https://mpfmembers.org.uk/content/Investment-Strategy-Statement

Merseyside Pension Fund pursues a policy of Responsible Investment (RI), arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected.

Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system. In setting its high-level strategic framework, MPF will take a forward-looking view of the strategy's sustainable characteristics (for example, by using techniques such as climate scenario analysis).

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates.

Under the auspices of the Northern LGPS Investment Pool, MPF evaluates and monitors the RI capability of all its investment managers, with reference to industry standards of best practice. MPF is a signatory of the **Principles for Responsible Investment** and is committed to reporting on its implementation of these Principles and promoting them across the investment industry. The Fund intends to become a signatory to the revised FRC UK Stewardship Code.

MPF makes use of a variety of ESG incorporation[2] methodologies, within particular mandates (including those managed by the in-house team) where the investment objective includes the optimisation of ESG-related risk and opportunity, alongside an increasing focus on shaping

[2] The PRI's definition and guidance on ESG incorporation informs this statement: https://www.unpri.org/investment-tools

sustainable outcomes. These methodologies include primarily (but not exclusively) ESG fundamental integration and active ownership, with ESG tilts and some norms-based screening applied in index-tracking strategies. For investments in private markets, MPF takes steps to ensure that the investment selection and management process is governed by consideration of material ESG factors over the lifecycle of each portfolio investment.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered throughout the governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.

MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a **'finance-first' investor**). Social impact or thematic investing may provide access to diverse opportunities, with lower correlations to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF's participating employers and scheme members.

MPF seeks to implement its RI policy by collaborating with other investors to benefit from the sharing of resources and leveraging of influence. To a considerable extent, this is through its pool partnership with Greater Manchester Pension Fund and West Yorkshire Pension Fund, the two other member funds of the Northern LGPS Pool. The Responsible Investment Policy for the Northern LGPS sets out how any environmental, social and governance policies are handled by the pool and how stewardship responsibilities are determined and enacted. It also encapsulates voting policies as detailed below.

The exercise of rights (including voting rights) attaching to investments

MPF considers that practising responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership.

MPF's policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund).

The Fund implements its voting policy in partnership with a specialist advisor (currently **PIRC Ltd**) who provides appropriate research and vote execution services for the pool and the fund that cover the major markets in which shares with voting rights are held.

MPF votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party and to the Joint Committee of the Northern LGPS. A summary of voting activity forms part of the Fund's Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company's recommendation, is made publicly available through the **Fund's website**.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio with the intention for this to be widened to include fixed income holdings.

As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the **Local Authority Pension Fund Forum**, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice. Where boards of investee companies are resistant to dialogue or change, MPF will escalate issues by, for example, voting against the re-election of the Chair of the board. Ultimately, where asset owners refuse to engage or change, MPF will consider adjusting its investments as appropriate to the risks, in accordance with its Responsible Investment policy and its fiduciary responsibilities.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity to an appropriate standard. It recognises that stewardship in private markets may be less well developed than for public markets and the Fund seeks to promote best practice with its incumbent and potential asset managers. The Fund is actively pursuing ways in which it can participate in proxy voting decisions in respect of its listed holdings in pooled structures.

In addition to disclosing stewardship activities, MPF also recognises that effective stewardship should focus on achieving 'real world' outcomes and undertakes to report annually on the outcomes of its stewardship activities.

Merseyside Pension Fund
Castle Chambers, 43 Castle Street
Liverpool, L2 9SH

Telephone: 0151 242 1390
Fax: 0151 236 3520
Web: http://mpfemployers.org.uk
Email: mpfadmin@wirral.gov.uk

ADMINISTERING AUTHORITY
WIRRAL

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WIRRAL

LOCAL PENSION BOARD

1 DECEMBER 2021

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

REPORT SUMMARY

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

RECOMMENDATION/S

That the Pension Board be recommended to note the minutes of the Northern LGPS Joint Committee meeting.

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 Board Members are informed of all developments affecting the Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options for reporting to the Board as this is best practice.

3.0 BACKGROUND INFORMATION

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

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. Pooling allows the funds in the Northern LGPS to benefit from economies of scale and to combine resources particularly in relation to private market assets.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

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

7.0 RELEVANT RISKS

7.1 Pooling has resulted in fundamental changes to oversight and management of LGPS assets. It is essential that Pensions Committee exercises its governance responsibilities in accordance with the Council's constitution and that the Pension Board assists the Scheme Manager in ensuring this is undertaken appropriately.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising directly from the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

REPORT AUTHOR: **PETER WALLACH**
DIRECTOR OF PENSIONS
telephone (0151) 242 1309
email peterwallach@wirral.gov.uk

APPENDICES

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

Minutes of Joint Committee meeting.

BACKGROUND PAPERS

CIPFA: the guide for local pension boards

https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance

SUBJECT HISTORY (last 3 years)

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

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

8 July 2021

(Meeting held remotely via Zoom Pro platform)

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

Present:	**Councillor Gerald P Cooney (Chair)**	**Vice Deputy – Greater Manchester Pension Fund**
	Councillor Brenda Warrington	**Chair – Greater Manchester Pension Fund**
	Councillor Andrew Thornton	**Chair - West Yorkshire Pension Fund (WYPF)**
	Councillor Pat Cleary	**Chair – Merseyside Pension Fund**
	Councillor Cherry Povall (part meeting)	**Vice Chair – Merseyside Pension Fund (MPF)**
	Liz Bailey	**West Yorkshire Pension Fund**

In attendance:

Rodney Barton	**Director of Pensions, WYPF**
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**
Dan Hobson	**Head of Real Assets**
Greg Campbell	**Merseyside Pension Fund**
Owen Thorne	**Merseyside Pension Fund**
Colin Standish	**West Yorkshire Pension Fund**
Alan McDougall	**PIRC**
Janice Hayward	**PIRC**
Tom Powdrill	**PIRC**
Conor Constable	**PIRC**

1. DECLARATIONS OF INTEREST

There were no declarations of interest declared by Members.

2. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 15 April 2021 were agreed as a correct record.

3. 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.

Government had yet to publish a response to the consultation and the 2015 guidance therefore, remained in force. MHCLG civil servants continued to indicate that a new consultation on pooling guidance and potentially, changes to the LGPS Investment Regulations were expected sometime later in the year. In the short-term there may be a ministerial statement on the Government's commitment to pooling.

MHCLG had issued its annual request for a further progress update from each of the Pools, setting out the assets transferred to the pool as at 31 March 2021 and an estimate of costs savings achieved and those expected in future.

MHCLG was keen for all pools to be reporting cost savings on a consistent basis and representatives of Northern LGPS, ACCESS and the Wales Pensions Partnership had been invited to attend the meetings which take place between the Chief Operating Officers of the five pools, which operated their own FCA regulated fund manager in order to discuss how this could be achieved going forwards.

Based on the information shared at the meetings, Northern LGPS has used similar methodology to most of the other pools when calculating cost savings in previous years and whilst a consistent LGPS-wide methodology is yet to be agreed, it was expected that no significant changes would need to be made by Northern LGPS when calculating both achieved and projected future savings for this year's MHCLG progress report.

Northern LGPS' cost savings for 2020/21 were expected to be between £25m and £30m (increasing from approximately £21m in 2019/20), giving total savings since inception of between £65m and £70m. These figures were consistent with the future projections made last year. The increase in costs savings achieved was as a result of the continued increase in commitments and assets under management of the GLIL and NPEP vehicles.

Members were advised that each of the partner funds in the Northern LGPS Pool was currently in the process of producing 31 March 2021 year end accounts and an annual report. At the Joint Committee meeting in July 2020 it was agreed that a 2020 Pool Annual Report be produced, which funds would have the option of including within their respective annual reports. It was proposed that a 2021 Pool Annual Report be produced following confirmation of the basis for calculating cost

savings as previously detailed and that the fund Directors liaise with their respective Committee members to finalise the report in conjunction with their fund annual reporting process.

Updates on the progress of the main ongoing work-streams for the Northern LGPS together with LGPS Pooling developments nationally were provided in the report.

It was reported that all pools other than Northern LGPS had agreed to work with a financial services consultant with the aim of developing new reporting metrics for Pools to show the on-going and future success of pooling. Further details of the proposed project were set out in the **Appendix A** to the report (workstream 2)

Discussion ensued in particular in respect of developing criteria for measuring pooling success.

RESOLVED
(i) That the content of the report be noted;
(ii) That the production of a concise Northern LGPS Annual Report for 2020/21 be approved, which can be included within the annual reports of the participating funds; and
(iii) That NLGPS expresses its view in respect of developing a criteria for measuring pooling success.

4. UPDATE ON THE ACTIVITIES OF THE SCHEME ADVISORY BOARD'S INVESTMENT, GOVERNANCE & ENGAGEMENT (IG&E) 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.

An update of the content of the sub-committee meeting held on 19 April 2021 was provided.

Sandra Stewart, Director of Pensions, GMPF and Chair of the Responsible Investment Advisory Group (RIAG), gave details of discussions and areas of focus at recent meetings, including:

- LGPS proposals in respect of MHCLG's consultation on TCFD reporting
- The content of Responsible Investment A-Z website
- A response to the APPG "Just Transition".

RESOLVED
That the content of the report be noted.

5. UPDATE ON RESPONSIBLE INVESTMENT

Tom Powdrill, PIRC Ltd., Responsible Investment advisor to the Northern LGPS, provided an update on the Northern LGPS Responsible Investment Policy, attached as an appendix to the report.

It was explained that the Policy had been updated to reflect recent developments in the responsible investment landscape as well as provided a more substantive guidance on responsible investment issues.

The policy framework had been guided by the recommendations of the Principles for Responsible Investment (PRI) as well as a request from funds to provide more detailed policy text on environmental and human rights issues. The updated policy also sought to provide a recognisable link between the Pool's responsible investment activity and the unique cultural heritage of the regions it represented.

Copies of the Q1 2021 Northern LGPS Stewardship Report; and Q1 2021 "Voice" Quarterly Report were also appended to the report.

Detailed discussion ensued in respect of the content of the Policy and concerns were raised in respect of Northern LGPS's long-term goal for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement and the need to strengthen this commitment in the policy in accordance with NLGPS's agreement to explore the feasibility of a 2030

target in line with the IPCC's 1.5-degree pathway.

Further concerns were also raised with regard to human rights issues and how any reluctance of companies to engage positively or responsibly on this matter, would be addressed.

RESOLVED
That the content of the report be noted and the draft updated Northern LGPS Responsible Investment Policy, as appended to the report, be endorsed, subject to the strengthening of the wording in the Policy in respect of:

- **NLGPS's commitment to exploring the feasibility of a 2030 target for net zero-emissions; and**
- **Escalation of interactions in respect of any company's reluctance to engage positively or responsibly with human rights issues.**

6. NORTHERN PRIVATE EQUITY POOL – ANNUAL REVIEW OF STRATEGY AND IMPLEMENTATION

A report was submitted and a presentation delivered, by the Assistant Director of Pensions Investments, GMPF, which gave a review of activity, strategy and implementation approach regarding Northern Private Equity Pool.

It was explained that the NPEP portfolio consisted of commitments to private funds targeting investments, made nationally or internationally, in the private equity or related private securities of companies. Commencing from 1 January 2020, the portfolio also included direct co-investment in such securities.
The report and presentation outlined:

- Current approach to investing in Private Equity;
- Implementation during calendar year 2020;
- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

A problem-free year from an administrative perspective was reported. All statements and reports were circulated consistent with legal agreements and the day-today functioning of Northern Trust as fund administrator had worked well.

Mazars was re-appointed as external auditor, on a three-year contract following a market tender. Tax, legal and investment advice was procured on an ad hoc basis, as required.

The year end audit of both the GP company and the Limited Partnership entities was completed in a timely fashion, with both entities receiving a clean audit opinion. The requisite Partnership and Corporate tax filings were made, in time, by KPMG.

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

7. PROPERTY FRAMEWORK

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, GMPF, updating Members on the forthcoming use of Lot 1 and Lot 6 of the Northern LGPS Framework.

RESOLVED
That the content of the report be noted.

8. 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 quarterly report for GLIL to the end of March was attached to the report at Appendix 1. The highlight during the quarter was the completion of the investment in Agility Trains East. Post quarter,

GLIL had completed a purchase in partnership with Arcus Infrastructure of Smart Meter Assets, a leading meter asset provider in the UK.

The ESG policy approved by GLIL following consultation with stakeholders and with input from the specialist consultants based in Stockport, was appended to the report at Appendix 2. As set out in the policy, there was more work to be done on implementing the ESG policy into all aspects of GLIL's activities.

Appendix 3 to the report set out a summary of press coverage resulting from the announcement of the partnership with Nest Corporation, who were formally admitted at the end of the quarter.

The priorities for GLIL over the next quarter and 12 months were detailed and discussed.

RESOLVED
That the content of the report be noted.

9. PERFORMANCE MEASUREMENT

The Assistant Director of Pensions Investments, GMPF, submitted a report providing Members 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 31 March 2021 was attached as an appendix to the report. It was explained that data for Merseyside Pension Fund was interim and subject to revision. It was further explained that reporting assisted 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.

It was noted that universe collation, analysis and research services were provided to the Northern LGPS Funds by PIRC. The PIRC 2020/21 Local Authority Fund Statistics were shown in tabular format in appendices to the report, for information. The PIRC LGPS Universe comprised of 64 funds with total assets valued at £230 billion as at 31 March 2021.

RESOLVED
That the content of the report be noted.

10. COMMON CUSTODIAN UPDATE

Consideration was given to a report of the Assistant Director of Pensions Investments, GMPF, which provided key performance indicators and key milestones and deliverables for the quarter to 31 March 2021 in relation to Northern Trust (NT) in their capacity as the common custodian to the Northern LGPS pool, as attached in an appendix to the report.

RESOLVED
That the content of the report be noted.

CHAIR

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WIRRAL

LOCAL PENSIONS BOARD

1 DECEMBER 2021

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

REPORT SUMMARY

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

RECOMMENDATION/S

That the Pensions Board be recommended to note the minutes.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. There is a requirement for Members of the Board to be kept up to date with the Fund's activities as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 There are no other suitable options for reporting the working party minutes to the Board.

3.0 BACKGROUND INFORMATION

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

4.0 FINANCIAL IMPLICATIONS

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

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. The working parties ensure the oversight of the Fund's activities by elected members.

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising directly from this report. Responsible Investment which includes environmental and climate matters is a standing item on the IMWP agenda.

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

APPENDICES

Appendix 1 Working Party minutes
Appendix 2 Working Party minutes

BACKGROUND PAPERS

CIPFA: the guide for local pension boards

SUBJECT HISTORY (last 3 years)

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

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IMWP
15th September 2021
10.30am
MS Teams

Attendees

Councillor Pat Cleary (Chair)	PC	WBC
Councillor Jo Bird	JB	WBC
Councillor Martin Bond (Co-Optee)	MB	St Helens Council
Councillor Chris Carubia (Spokesperson)	CCar	WBC
Councillor Jeff Green	JG	WBC
Councillor Adrian Jones	AJ	WBC
Councillor Cherry Povall (Vice-Chair)	CP	WBC
Councillor Les Rowlands	LR	WBC
Roger Bannister (Co-Optee)	RB	UNISON
Adil Manzoor	AM	MPF
Peter Wallach	PW	MPF
Rohan Worrall	RW	Independent Advisor
Paul Watson	PWat	Independent Advisor
Lucinda Downing	LDo	Aon Hewitt
Louis-Paul Hill	LPH	Aon Hewitt
Tim Manuel	TM	Aon Hewitt
Janice Hayward	JH	PIRC
Lara Bletcher	LB	PIRC
Conor Constable	CC	PIRC

Tom Powdrill	TP	PIRC
Alan MacDougall	AM	PIRC
Jennie Baruxakis	JB	LSEG
Aled Jones	AJ	LSEG
Colin Hughes	CH	WBC
Christine German	CG	WBC
Greg Campbell	GC	MPF
Neil Gill	NG	MPF
Daniel Proudfoot	DP	MPF
Donna Smith	DS	MPF
Elizabeth Barlow	EB	MPF
Owen Thorne	OT	MPF
Susannah Friar	SF	MPF
Farbod Abarghouei Nejad	FN	MPF
Alex Abela-Stevenson	AA	MPF
Dragos Serbanica	DS	MPF
Christopher Crawford	CC	MPF
Emma Jones	EJ	MPF

Apologies

Name	Initials	Organisation
Councillor Helen Collinson	HC	WBC
Councillor Brian Kenny	BC	WBC
Councillor Paulette Lappin	PL	WBC
Councillor Joe Walsh	JW	WBC

Declarations of Interest
Councillor Jo Bird: pecuniary interest by virtue of her partner being a member of Merseyside Pension Fund.

Councillor Les Rowlands: pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

This meeting was purely devoted to Responsible Investment and Northern LGPS policy. The IMWP pack was distributed for noting purpose only.

1. **Minutes of IMWP held on 29th June 2021**

   Noted- no amendments.

2. **Responsible Investment (RI) at Merseyside: governance & strategy (Owen Thorne; Aon)**

   Owen Throne (OT) outlined the Fund's RI policy with a particular focus on the governance framework at MPF. OT stated that the Fund 's intention is to become a signatory of the UK Stewardship Code.

   Tim Manuel (TM), head of RI at Aon, summarised the Fund's beliefs within its investment policy. He highlighted the importance of incorporating Environmental, Social and Governance (ESG) overlays into the investment process, and also the ability of fund managers to mitigate ESG risks on behalf of the Fund.

3. **ESG toolkit: data, benchmarks & external standards (Aled Jones – FTSE Russell)**

   Aled Jones (AJ) provided an overview of new standards in relation to climate change, and use of Sustainable Investment (SI) and ESG data to meet those evolving standards. AJ noted that the recent physical climate events have amplified the urgency of the climate change issues, increasing focus on regulatory standards, particularly in Europe.

   JG asked whether we are operating under the EU or the UK framework. AJ stated the majority of the EU legislation is translated into the UK framework. OT added, historically the UK has contributed significantly to the EU Sustainable Finance Policy, and going forward, it would continue to be aligned with the EU framework, albeit while seeking to develop its own version.

AJ added climate-related investment strategies have evolved from managing risks towards “Paris aligned portfolios”, in which progressive decarbonisation will over time achieve “Net Zero” emission exposure.

4. Implementing ‘forceful’ stewardship: engagement & escalation, targeting ‘outcomes’, NLGPS policy update (PIRC)

Tom Powdrill (TP) provided an overview of Northern LGPS’ RI Policy, which has been updated to reflect the recent developments.
TP provided an update of the Fund‘s engagement with fossil fuel companies, such as BP, Shell and Chevron, in relation to climate stewardship.

Regarding water stewardship, CC noted, in 2020 the Fund became a founding member of the Valuing Water Finance Task Force through its active membership of LAPFF. This body addresses water stewardship and associated water risks.

In regard to human rights, TP highlighted MPF’s engagement with a wide range of companies such as Rio Tinto and Barrick Gold. TP mentioned LAPFF has engaged with a great number of companies over allegations of forced labour, and engaged with labour activists and social auditors to address labour rights issues.

PC stated his concern about climate risk, and companies that are reluctant to engage regarding such issues.

PC opened up for questions.

JG asked whether polluting companies are credited for their positive contributions. AJ stated MPF’s Climate Factor Portfolio is merely capturing direct operational carbon emissions and fossil fuel reserves exposure, although, offsetting activities are captured in broader ESG scores.

JG asked whether exclusion of controversial countries is addressed in the NLGPS RI policy. PW stated the existing RI policy does not explicitly mention divestment from specific countries, however, an amendment is proposed, in relation to companies, which states “*Ultimately, in such cases, Northern LGPS will consider adjusting its investments as appropriate to the risks, in accordance with its Responsible Investment policy and its fiduciary responsibilities”* which would allow for divestment from a company where an escalation policy had been exhausted. TP added the Fund and the Pool retain the rights to review their investments in case of an unsatisfactory engagement.

RW asked about the science-based targets initiative (SBTi) approach as opposed to "Net Zero". AJ stated SBTi's guidance on companies decarbonisation commitment is captured by the Transition Pathway Initiative (TPI) analysis, which assesses companies, "climate governance". OT added the attraction of SBTi lies within its open-source dataset methodologies, in which investors are seeking to set a level of common expectation for sectorial decarbonisation.

RW asked about PIRC's managers' voting report regarding ESG issues and whether PIRC is still producing the reports. TP stated that PIRC is providing the analysis on a regular basis, to assess how managers are acting in relation to various ESG issues. TP noted, over the last couple of years, managers engagements have improved significantly, and cited Shell's climate transition plan as a positive test case.

JB asked whether exclusions/divestments in companies that are inconsistent with MPF's values are included in the RI policy, and noted the climate and social impact of the armament industry. TM stated MPF's RI policy emphasises engagement with companies for positive change. However, divestment, as an ultimate sanction is pursued if engagement is not successful.

PC added the proposed RI policy will be reviewed at the next Pension Committee meeting.

PC asked about sustainable issues beyond climate change, such as human rights. TM stated achieving the "Paris Net Zero Target" requires a wide range of commitments beyond carbon emissions reduction. LB highlighted the development of policies and regulations regarding human rights issues, which has started to align climate and human rights.

4. AOB

None

PC closed the meeting at 12:30pm

Date of next meeting: Tue 16th November 2021, 10:30am MS Teams.

5. Presentation decks

Responsible Investment (RI) at Merseyside: governance & strategy (Owen Thorne; Aon)

RI governance_OT_Sept

Aon_MPF RI actions & analysis intro - Sep

ESG toolkit: data, benchmarks & external standards (Aled Jones – FTSE Russell)

2021.09.15_FTSE Russell_SI data, Bmks

Implementing 'forceful' stewardship: engagement & escalation, targeting 'outcomes', NLGPS policy update (PIRC)

PIRC_MPF Sept 2021.pdf

Minutes of the Governance and Risk Working Party, 10.00, Thursday 23 September 2021
Microsoft Teams meeting.

Present:

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Councillor Jeff Green	JG	WBC
Councillor Adrian Jones	AJ	WBC
Councillor Les Rowlands	LR	WBC
Councillor Jo Bird	JB	WBC
Peter Wallach	PW	Director of MPF
Yvonne Murphy	YM	Head of Pensions Administration
Donna Smith	DS	Head of Finance & Risk
Guy Hayton	GH	Operations Manager
Paula Heaton	PH	Employer Compliance & membership Manager
Mark Niblock	MN	Chief Internal Auditor

Apologies were received from:

Name	Initials	Organisation
Councillor Helen Collinson	HC	WBC
Councillor Paulette Lappin	PL	Sefton Council
Councillor Brian Kenny	BK	WBC
Councillor Chris Carubia	CC	WBC
Councillor Martin Bond	MB	St Helen's Council

In attendance: Emma Jones.

1. Approval of Minutes

Minutes of GRWP dated Wednesday 14 April 2021 were noted.

2. Declarations of Interest

Councillor Jo Bird: pecuniary interest by virtue of her partner being a member of Merseyside Pension Fund.

Councillor Les Rowlands: pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Noting/Action points

Noted.

3. Internal audit annual report

The Chief Internal Auditor presented the Internal Audit's Annual Report. MN reported that to ensure compliance with the best professional practice the Internal Audit Service is required to prepare and present an Annual Report. This summarises the work that is undertaken by the Internal Audit Service and determines an overall opinion of the effectiveness of the assurances being provided by the control environment and the operation of the Fund.

The opinion identified in the report reflects work conducted by the Internal Service Audit during 2000/21 and is delivered in compliance with a Service Level Agreement with the Fund and where that work is targeted. There is a Risk Plan in operation which sits behind this.

MN briefed Members on the work the Internal Audit have undertaken with regard to Pooling arrangements working corroboratively with the internal audit teams from Manchester and West Yorkshire to develop work programmes.

The risk of the Fund managing more of its own assets 'in house' was discussed and whether capacity can be increased. MN advised that he works very closely with the Fund to look at any future developments and the audit work undertaken in these specific risk areas remains relevant and appropriate. PW drew attention to the Investments-related audit work that is planned for the next three years confirming that it is an area of particular focus.

Guidance documents and best practice notes were discussed which are specific to the LGPS.

Noting/Action Points

PC asked for the GRWP Pack to be sent to members in a more timely manner in the future.

4. Pensions Administration KPI report

YM reported on the key performance indicators on the operations of the administration team during the period 1 April 2021 to 30 June 2021. YM advised that the report gives an overview of active, deferred and pensioner membership and work in conjunction with constituent employers. There are three distinct service areas, and the functions of each team are measured against performance standards documented within the Pension Administration Strategy.

The potential effects of staff working from home on KPI statistics and the arrangements for Covid-secure office working was discussed.

Noting/Action Points

The report was duly noted.

5. NLGPS Custodian update

PW presented a report which provided key performance indicators and key milestones and deliverables for the quarter to 31 March 2021 in relation to Northern Trust in their capacity as the common custodian to the Northern LGPS pool.

Noting/Action Points

The report was duly noted.

6. MPF Contract exceptions report

Consideration was given to a report of the Head of Finance & Risk. DS advised that the purpose of the report was to inform members of the fund's contracts which have been awarded and registered on the Corporate Procurement Unit's Register as being subject to Waiving the Rules (Rule 12) and breaches to the Contract Procedure Rules (CPRs). It is also to report any breaches of CPR's which have been logged from September 2020 to date. DS provided an overview of the report and the salient points contained therein.

A query was raised regarding a cladding issues affecting one of the fund's properties. PW briefed Members on the situation and undertook to follow up on progress in resolving the matter.

Noting/Action Points

PW will follow up on progress regarding the cladding issue and report back to Members.

The report was duly noted.

7. Risk Register review

PW reported the purpose of this report is to provide the Working Party with a copy of the Fund's Risk Register and for members to consider the changes to the risk register and note the report and to assure members that a review of risks is undertaken regularly.

Noting/Action Points

JG asked whether this item could be reported earlier on in the agenda so the Risk Register is given due attention. It was agreed that this would be considered.

It was agreed that the effectiveness of mitigations and their effect over the long term should be assessed..

8. **AOB**

The Chair thanked Members for their attendance and the Officers for the work involved to compile the reports.

Noting/Action Points

Date of Next Meeting - *TBC*

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
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