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WIRRAL

Local Pensions Board

Date:	**Friday, 16 December 2022**
Time:	**1.00 p.m.**
Venue:	Virtual - Microsoft Teams

Contact Officer: Mike Jones
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e-mail: MichaelJones1@wirral.gov.uk
Website: http://www.wirral.gov.uk

Please note that public seating is limited, therefore members of the public are encouraged to arrive in good time.

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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 28 September 2022.

5. APPOINTMENT OF REDINGTON AS STRATEGIC INVESTMENT ADVISORS (Pages 5 - 8)

6. LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE (Pages 9 - 20)

7. GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND (Pages 21 - 54)

8. MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2021/22 AND LETTER OF REPRESENTATION (Pages 55 - 164)

9. NORTHERN LGPS UPDATE (Pages 165 - 178)

10. DRAFT FUNDING STRATEGY STATEMENT (Pages 179 - 240)

11. UPDATE ON 2022 ACTUARIAL VALUATION (Pages 241 - 254)

12. CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS IN THE LOCAL GOVERNMENT PENSION SCHEME (Pages 255 - 286)

13. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

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

14. APPOINTMENT OF REDINGTON AS STRATEGIC INVESTMENT ADVISORS EXEMPT APPENDIX (Pages 287 - 294)

15. PENSION ADMINISTRATION MONITORING REPORT (Pages 295 - 326)

16. RISK REGISTER (Pages 327 - 334)

LOCAL PENSIONS BOARD

Wednesday, 28 September 2022

Present: J Raisin (Chair)

R Dawson
P Fieldsend
R Irvine
P Moloney

17 WELCOME AND INTRODUCTION

The Chair welcomed everyone to the meeting and proposed altering the order of the meeting so the items with external presenters be heard first. This was agreed.

The minutes remain in the original agenda order.

18 APOLOGIES

Apologies for absence had been received from:
Geoff Broadhead employee representative
Donna Ridland, employee representative
Lyn Robinson, employer representative
Stefan Van Arendsen, employer representative

19 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

There were no declarations of interests.

20 MINUTES

An update was provided on the trade union membership to the Northern LGPS Joint Committee (Minute 9 in the minutes). It was noted that the next meeting was on 8 October 2022 where a further update could be sought.

Resolved:
That the minutes of the Local Pensions Board meeting held on 8 July 2022 be approved.

21 LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE

The Head of Pensions Administration presented the report of the Director of Pensions which provided details of developments in the Local Government Pension Scheme (LGPS), specifically the publication of a Written Ministerial Statement confirming the Government’s continued provision of a guarantee to

the Local Government Pension Scheme (LGPS) in respect of Academy Trusts. The report was to go to the Pensions Committee.

In response to questions, it was confirmed that

- the fund had been successful in recovering a debt,
- the Department for Education offered a guarantee although closures were rare.

Resolved:
The report be noted.

22 **CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS IN THE LOCAL GOVERNMENT PENSION SCHEME**

The Director of Pensions introduced his report which informed Board Members about a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) seeking views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The consultation ran until 24 November 2022. It did not just concern carbon metrics but also governance, strategy on climate risks, risk management and targets. It was envisaged that Funds produce their own individual reports and that these feed into a report for the LGPS in England and Wales as a whole.

Resolved:
That the report be noted.

23 **NORTHERN LGPS UPDATE**

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

Resolved:
The minutes of the Joint Committee meeting be noted.

24 **MINUTES OF WORKING PARTY MEETINGS**

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

Members noted that the UN's Principles of Responsible Investment programme on human rights had been signed up to which should help to

ensure greater objectivity when considering controversial issues such as those relating to the occupied Palestinian territories.

Resolved:
The minutes of the be noted.

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

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

26 **CEM: BENCHMARKING OF INVESTMENT MANAGEMENT AND PENSIONS ADMINISTRATION**

The report of the Director of Pensions informed the Board of the outcomes of benchmarking exercises undertaken in relation to the 2020-2021 scheme year for both the delivery of the Fund's investment management and pensions administration services.

Resolved:
That the outcomes of both the investment and administration benchmarking reports in relation to the 2020-2021 scheme year be noted.

27 **MERSEYSIDE PENSION FUND INTERNAL AUDIT ANNUAL REPORT 2021/22**

The Chief Internal Auditor presented his summary report of the programme of audits of the Fund reviewing relevant areas of risk to the Fund, along with his overall opinion.

The Chair proposed an amended recommendation noting the positive audit opinion. This was supported by Board Members.

Resolved:
That it be noted that in 21/22 internal audit work undertaken found that there was an adequate and effective level of control and this was a positive outcome for the fund.

28 **PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 APRIL – 30 JUNE 2022]**

The Head of Pensions Administration introduced this report which provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 April 2022 to 30 June 2022.

Resolved:
That the report be noted.

29 **RISK REGISTER**

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

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

WIRRAL

PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**APPOINTMENT OF REDINGTON AS STRATEGIC INVESTMENT ADVISORS**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to inform Board members of the appointment of Redington as Strategic Investment Advisors to Merseyside Pension Fund and for a verbal introduction from Redington to be made.

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

RECOMMENDATION/S

That the Local Pensions Board be recommended to note the appointment of Redington as Strategic Investment Advisors to Merseyside Pension Fund.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 MPF's Strategic Investment Advisors form an integral part of the Fund's governance arrangements.

2.0 OTHER OPTIONS CONSIDERED

2.1 In view of the timelines involved there was no satisfactory alternative way for Redington to address Committee and Board.

3.0 BACKGROUND INFORMATION

3.1 MPF's contract with its incumbent advisors, Aon, had been in place for a number of years and was retendered in accordance with Wirral's Contract Procedure rules. The tender specified MPF's strategic investment objectives and extended to include support for a major programme of change. The change programme is expected to deliver the objectives previously approved by Committee in relation to investment strategy, climate risk, sustainability and responsible investment. Following a thorough and detailed procurement process, Redington's submission was successful and they were appointed in November for a period of four years with an option to extend.

3.2 Detailed objectives were incorporated in the tender specification and are being prioritised and time bound with officers. Summary objectives were:

Strategic Objectives

The strategic adviser will be accountable to the Director of Pensions (as Head of MPF's management team) for providing the service in support of the Fund's strategic objectives. MPF will require the full range of services set out in Lot 1 of the Framework, inclusive but not limited to:

- Advice on investment strategy review & strategic asset allocation, in line with the triennial funding strategy cycle;
- Liaison as appropriate with the Fund's actuarial advisors;
- Advice & support on strategic progression to the quarterly Investment Monitoring Working Party meetings;
- Advice and support on MTAA and risk management strategies, including quarterly review.

Change Programme 2022

- Merseyside Pension Fund seeks an investment consultant to work with the Investment Team as Strategic Adviser; and through a partnership model, to support a major programme of change to the Fund's investment strategy to achieve the objectives of:

- Maintain full funding position, reduce risk and achieve target returns.
- Implement changes to strategic benchmark, including portfolio restructuring & streamlining of governance.
- Target and implement a Net Zero climate plan over short, medium and long term.

4.0 FINANCIAL IMPLICATIONS

4.1 There is budgetary provision for the contract. The LGPS National Frameworks were utilised for the process and the most economically advantageous tender was selected.

5.0 LEGAL IMPLICATIONS

5.1 There are occasions where the Committee is required to take proper advice and the Fund's Strategic Investment consultant is available to provide support.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Redington will provide support to the Fund in the responding to regulatory change and the delivery of the change programme

7.0 RELEVANT RISKS

7.1 There are occasions where the Committee is required to take proper advice and the Fund's Strategic Investment consultant is available to provide support.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Redington will support officers in addressing Environmental, Social and Governance investment matters and in the delivery of MPF's net zero ambitions.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
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APPENDICES

Introductory presentation from Redington

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.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme
Wirral: Constitution – Contract Procedure Rules

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
.	

WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**LOCAL GOVERNMENT PENSION SCHEME (LGPS) 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/S

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

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION/S

1.0 There is a requirement for Members of the Board to be kept up to date with legislative and industry developments as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

3.1 This report provides an overview of proposed changes affecting the future administration and governance of the Local Government Pension Scheme (LGPS).

4.0 FINANCIAL IMPLICATIONS

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

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

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

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 The Department for Levelling Up, Housing and Communities (DLUHC) and the Scheme Advisory Board undertake equality impact assessments regarding the provisions of the LGPS Regulations and the long-term cost efficiency of Scheme funding arrangements.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none directly arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: **Yvonne Murphy**
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APPENDICES

Appendix 1 – LGPS Update report

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

BACKGROUND PAPERS

CIPFA: the guide for local pension boards
As set out in the accompanying report

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The LGPS Update is a standing agenda item on the Local Pensions Board	

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WIRRAL

PENSIONS COMMITTEE

14 DECEMBER 2022

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

REPORT SUMMARY

This report provides an update on the national Pension Dashboard Programme (PDP) and the associated impact to the administration of the Local Government Pension Scheme.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the legislative developments, required actions and timescale to connect to the pension dashboard infrastructure.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 There is a requirement for the Pension Committee to be fully informed of national directives and legislative developments as part of their decision-making role.

2.0 OTHER OPTIONS CONSIDERED

2.1 This is the most appropriate option for informing Pension Committee of industry developments.

3.0 BACKGROUND INFORMATION

Conceptualisation of the Pension Dashboard Programme

3.1 In the 2016 Budget, the Government made a commitment that 'Pensions Dashboards' would be created by the pensions industry, enabling pension savers access to their pensions information online, securely, and all in one place, thereby supporting better planning for retirement and growing financial wellbeing.

3.2 In 2019, the Money and Pensions Service (MaPS) established the Pensions Dashboard Programme (PDP) to design and implement the national infrastructure that will operate 'Pensions Dashboards'.

3.3 The Pension Schemes Act 2021 provides a legal framework for 'Pensions Dashboards', including new powers to compel schemes to provide information to dashboard providers. Detailed requirements of what must be provided will be prescribed by legislation.

Purpose, and Infrastructure of a Pension Dashboard

3.4 The primary purpose of the dashboard project is to reconnect members with lost pension schemes, and provide deferred and active scheme members with access to specific information in respect of all their approved pension arrangements including:

- Basic pension details – name and type of scheme, administrator, contact details
- Employment details
- Accrued pension
- Estimated Retirement Income
- State pensions

3.5 'Pensions Dashboards' will have limited functionality, at the outset, with no ability to model benefit options, and no scope for individuals to update personal information; it is not expected to be a replacement for the Fund's 'My Pension' online portal

3.6 Members were apprised of the Pension Dashboard Ecosystem and governance framework at the Pension committee meeting on 20 September 2021, (minute 24 refers).

3.7 The interface to the dashboard will be facilitated via an Integrated Service Provider (ISP) and as the Fund's system supplier, Heywood Pension Technologies, are a significant stakeholder in supporting the development of the national infrastructure, Fund officers are actively engaging with the supplier as the preferred route to connect to the secure national digital architecture.

3.8 The ISP will hold an encrypted copy of the member demographic data (name, date of birth, address, and national insurance number) as held on the Fund's administration system, in order to respond appropriately to any requests from the Fund's members via their chosen 'Pensions Dashboard'.

Legislative Position and Go Live Date

3.9 On the 17 October 2022, the Department of Work and Pensions laid a draft of the Pensions Dashboard Regulations before each House of Parliament, after responding to the consultation on the regulations which ran from 31 January 2022 to 13 March 2022.

3.10 The regulations prescribe the staging date for the LGPS to connect to the national dashboard infrastructure and respond to data requests as 30 September 2024.

Previously expected to be 30 April 2024, the extension is in recognition of resource pressures relating to the McCloud remedy. In addition, schemes will not need to provide data detailing accrued and projected pension values until April 2025.

3.11 Data requests via the 'Pensions Dashboard' can be in the form of:

- "**find requests**" which match dashboard users with a pension membership and will be made to all Schemes each time an individual user access the dashboard

- "**view requests**" which are made if a user is matched to a membership held by the Pension Fund, with pension information then being securely passed back to the dashboard for the individual user to view.

3.12 The regulations stipulate a 10-day turnaround for Pension Schemes to respond to "view requests". As the LGPS is statutorily required to issue Annual Benefit Statements by 31 August each year, the data contained within the statements can be harvested to satisfy most requests for information.

However, in circumstances where benefit statements have not yet been issued as members joined mid-year or the employer has failed to provide timely and accurate data, the calculations will need to be processed, presenting a challenge to meet the 10-day turnaround period.

3.13 Although the LGPS staging date is September 2024, the pensions dashboards will only be made publicly available when:

- The **security** of the ecosystem is fully assured
- The **user experience** has been tested
- **User behaviours** have been understood and any adverse impacts or unintended consequences mitigated
- The **right rules , standards and regulations** are in place
- The service has **ample coverage** of pension schemes and sufficient information about those pensions, so that it demonstrably meets user needs

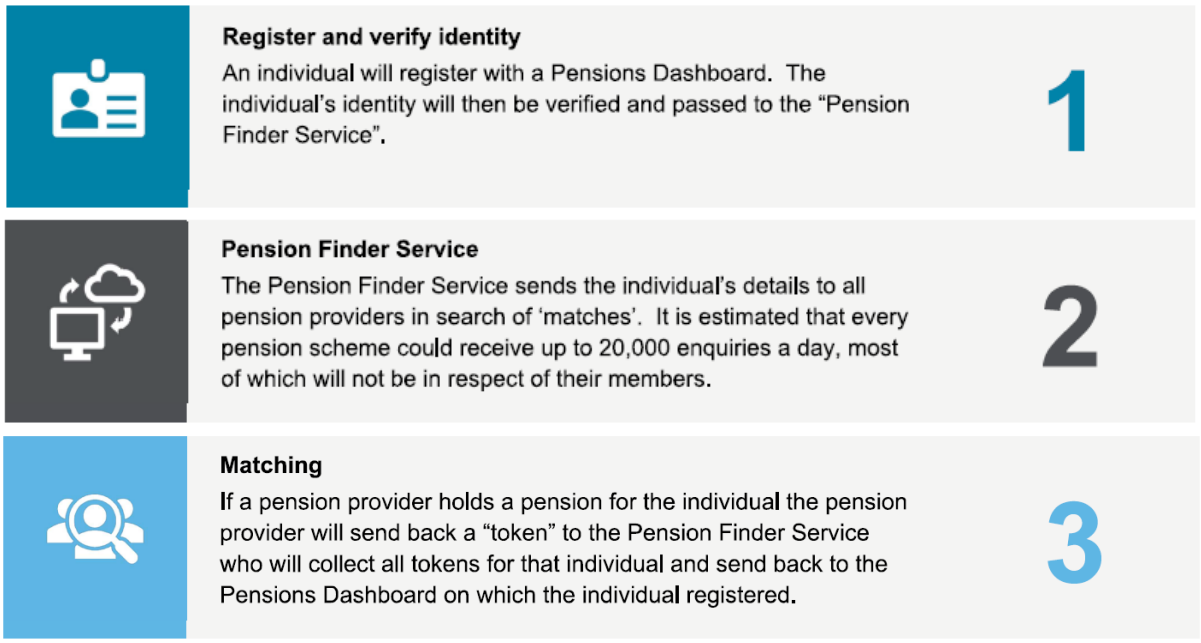
3.14 The current focus for the PDP is on dashboard standards, technology building, which is aimed at the ISP and system suppliers to ensure consumer protection. In preparation for industry readiness the Pensions Administration Standards Association (PASA) has published the Dashboard Data Accuracy Guidance which focuses on the data to match requests from the dashboards.

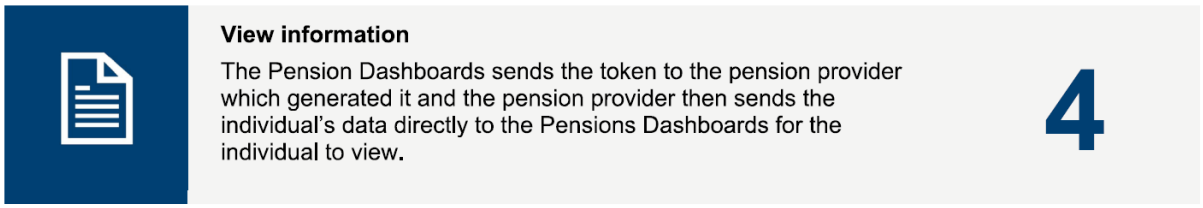
Fund officers are assessing the Data Matching Convention Guidance to consider its approach to digitally match the 'find requests' from users of dashboards against the Fund's member records, in readiness for the staging date.

Operating Model

3.15 There will be no central database that holds personal information supplied by users or pension providers. The national dashboard infrastructure functions like a "giant switchboard, connecting users with their pension savings ".

The steps how this will work in practice are set out below:





4.0 FINANCIAL IMPLICATIONS

4.1 Officers are currently in discussion with the Fund's administration system provider, as to be the likely ISP for securely connecting to the national infrastructure. The cost to connect to the dashboard and any required software licencing will be provided for in the Fund's annual IT budget.

5.0 LEGAL IMPLICATIONS

5.1 The Pension Schemes Act 2021 provides the legal framework to support pension dashboards, including powers to compel schemes to provide member information.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Fund Officers are in the process of undertaking qualitative analysis of the Fund's member records to ensure that common data matching items such as forenames, surname, date of birth, NI Number and home address are present and validated.

6.2 The Fund has worked with its Member Data Tracing provider to confirm the validity of home addresses of deferred members, and in particular to identify potential newer addresses for those members the Fund has lost contact with following a house move.

In August, the Fund wrote to 21,001 deferred members who were not registered for the MyPension online portal and where there was high confidence that the member's postal address was correct. Work continues in validating postal addresses where the Fund has either lost contact with the member, or the Data Tracing provider has indicated that the member has moved without notifying the Fund.

6.3 During the scheme year there has been a concentration of Officer effort to reduce backlogs of deferred benefit casework in recognition of the statutory requirement to ensure the accuracy of member status and the suitability of data for pension dashboard purposes.

6.4 It is expected that the national media campaign to communicate the introduction of 'Pensions Dashboards' will lead to an increase in administration activity levels, as members reconnect with their pensions, particularly after the period of the go-live staging date.

RELEVANT RISKS

7.1 There is a risk of censure from the Pensions Regulator for failing to comply with the statutory staging date to connect to the national dashboards' ecosystem

7.2 Whilst the consideration of CyberCrime has understandably been an important aspect in the design of the national infrastructure work by the Pensions Dashboard Programme, the Fund will need to undertake its own appropriate data protection review alongside a robust risk assessment when selecting the Integrated Service Provider.

7.3 There is also the risk that the collation, visibility, and awareness of member pension benefits may lead to an increase in pension scams, with the intention to defraud and liberate pension savings from members.

8.0 ENGAGEMENT/CONSULTATION

8.1 Each stage of the Pensions Dashboards development has been subject to rigorous consultations issued by the Department and Work and Pensions to industry stakeholders. These consultations have been carried out at the technical design, data standard and integration stages of the programme.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

DLUHC and HMT undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

9.2 Specifically for the 'Pensions Dashboard' programme, an impact assessment was conducted by the Department of Work and Pensions in February 2019 and can be found at:

https://publications.parliament.uk/pa/bills/lbill/58-01/004/5801004-IA-Annex-H.pdf

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: Yvonne Murphy
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BACKGROUND PAPERS

Draft Pension Dashboard Regulations 2022

https://www.legislation.gov.uk/ukdsi/2022/9780348239645/contents

PASA Dashboard Accuracy Guidance

https://www.pasa-uk.com/wp-content/uploads/2022/07/Dashboard-Accuracy-Data-Guidance-FINAL-270622.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Local Government Pension Scheme Update	**20 September 2021**

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WIRRAL COUNCIL

PENSION BOARD

16 DECEMBER 2022

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 2022. Grant Thornton presented a report to Pensions Committee at its September meeting and an updated report will be considered at a future Audit & Risk Management Committee.

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 appropriate as this is a statutory requirement.

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 £48,000 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 type of 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 Not relevant to this report.

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

Merseyside Pension Fund Audit Findings Report 2021/22

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

BACKGROUND PAPERS

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.	**1 December 2021** **10 November 2020** **17 July 2019**

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Grant Thornton

The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2022

20 September 2022

Contents

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

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 2022 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 work was completed on remotely during July-September. Our findings are summarised on pages 4 to 17 . There has been a minor adjustment (£5k) to the Fund Account to account for the proposed external audit fees for the year. We have not identified any other adjustments to the financial statements that have resulted in adjustment to the Pension Fund's reported financial position, to date. Audit adjustments, disclosure amendments and misclassification errors are detailed in Appendix B. We have not raised any new recommendation for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed. Subject to the satisfactory completion of the outstanding items below, there are currently no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. However, this position is subject to the satisfactory completion of the following outstanding matters;

- Receipt of the outstanding external investment confirmations (including 6 responses for the level 3 investments sample) and completing our testing
- Completion of unit price testing for level 1 and 2 investments
- Completion of the testing of a sample of direct property assets
- Results of the work of our specialist valuations team in valuing the derivatives
- Completion of the testing of large/unusual journals posted by management
- Completion of the audit work/sample testing on several non-significant risk areas of the accounts
- Finalisation of responses to Manager/EL reviews of the accounts
- Finalisation and agreement of the hot review with our technical/quality support team
- Final quality reviews of the audit work by the Engagement Leader and Review Partner
- Receipt of signed management representation letter
- Review of the final set of financial statements

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.

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified. An updated audit findings report will be presented to the Wirral MBC Audit & Risk Management Committee, which will confirm the audit opinion which we will be issuing.

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 at the Pensions Committee meeting on 22 June 2022.

Conclusion

We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed. Work is remains ongoing as we are working towards completing the audit by the end of September.

Subject to outstanding audit work and queries being resolved appropriately, we anticipate issuing an unqualified audit opinion however, the timing of when we are able to issue the opinion is dependant on when the Administering Authority audit opinion is also ready to be issued. At the time of writing there are several areas of our work which require completing in order for us to finalise the audit, these outstanding items are listed on page 3.

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, which was presented to the Pensions Committee on 22 June 2022.

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

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	96.496m	We have determined materiality for the audit to be £96.496m (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	72.372m	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	4.825m	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. At the time of writing this report we are still completing our testing of journals posted by management during the year. Management has provided us with all the required information at this stage. Our audit work to date 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 a quarterly 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 (£2,883 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 2022. 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 2022 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. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement. We are still finalising our work on this area. We still need to obtain external confirmations, audited accounts and service auditor control reports for 6 investment fund managers. We also still need to complete our testing on the audited accounts and service auditor control reports. Where a service auditor control report is not provided alternative assurance has been gained – see page 21.

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 a quarterly 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 (£568 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 2022. 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. We can confirm that the external valuer appointed is independent of ourselves and the Pension Fund • 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 on the valuation of directly held property is still ongoing at the time of writing this report. We are still finalising our testing of the valuation of a sample of assets and challenge of the Fund's external valuer. Our audit work to date has not identified any significant issues or misstatements.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IT Control deficiencies Our IT audit specialists have completed a review of the IT General Controls in place in the Oracle EBS and Altair systems at the Council and Pension Fund.	Two significant deficiencies were noted on the review of Oracle EBS which require reporting to TCWG: 1) Inadequate control over privileged/ generic accounts within Oracle EBS Risk - The excessive use of accounts with privileged access increases the risk of end-users being able to - change system configuration settings without authorisation and approval - read and modify sensitive data, - create, modify or delete user accounts without authorisation, - delete or disable system audit logs. Recommendation - Management should undertake a review of all user accounts on the Oracle EBS to identify all generic/ privileged accounts. For each account identified management should confirm the - requirement for the account to be active and be assigned privileged access - which users have access - controls in place to safeguard the account from misuse. Where possible, [privileged - generic] accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternately, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded. Management Response - We note that access to AZN and FND functionality has not been identified on previous audits which have been undertaken. We have checked a number of responsibilities and can confirm that we have a menu exclusion which prevents access to AZN functionality we have also checked and can't find any FND functionality associated with the same responsibilities. We will undertake a review of our responsibilities and any which we identify as having access to AZN or FND functionality where it is not necessary, we will implement similar exclusions to prevent access. We have recently performed an audit on all privileged accounts and either confirmed their access is still required or where appropriate removed unnecessary access or end dated accounts.	We have reviewed the deficiencies and noted that the significant deficiencies relate mostly to generic/privileged user accounts which is not directly related to journal postings but more in relation to system administration/maintenance. We have reviewed the users who have posted journals in the Fund's ledger in year and confirmed that there are none of the users detailed in the IT report. There is no further impact on our audit approach from review of the IT findings.

2. Financial Statements – new issues and risks continued

Issue	Commentary	Auditor view
IT Control deficiencies Our IT audit specialists have completed a review of the IT General Controls in place in the Oracle EBS and Altair systems at the Council and Pension Fund.	2) Inadequate control over privileged/ generic accounts within Oracle EBS Database Risk - Users with administrative privileges at Oracle EBS Database have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data. The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual. Recommendation - Management should undertake a review of all user accounts on the Oracle EBS Database to identify all generic/ privileged accounts. For each account identified management should confirm the - requirement for the account to be active and be assigned privileged access - which users have access - controls in place to safeguard the account from misuse. Where possible, privileged/ generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternatively, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded. Management response We acknowledge that there are a small number of privileged generic accounts which are used by our IT Team to undertake certain roles. Our DBA team use these administration accounts to perform tasks such as starting and stopping databases, managing memory and storage and creating and managing database user accounts. Accounts have been setup and configured as part of the EBS implementation and the account details are embedded within many of the operating processes within the system which make them extremely difficult and high-risk to attempt to remove. As recommended in last years audit review we have recently enabled additional audit logging by setting:- • audit_sys_operations to TRUE • audit_trail to DB,EXTENDED This will provide additional audit logging which will show changes made to our system by privileged user accounts.	We have reviewed the deficiencies and noted that the significant deficiencies relate mostly to generic/privileged user accounts which is not directly related to journal postings but more in relation to system administration/maintenance. We have reviewed the users who have posted journals in the Fund's ledger in year and confirmed that there are none of the users detailed in the IT report. There is no further impact on our audit approach from review of the IT findings.

2. Financial Statements – new issues and risks continued

Issue	Commentary	Auditor view
Journal Authorisation Processes	Ability to self-authorise journals in the General Ledger In the course of our work on control environment we have identified that finance team members within the Pension Fund who have the ability upload journals, also technically have the ability to approve the same Journals. This is a function of the Oracle EBS General Ledger system and the way in which it has been developed for use within the Pension Fund and the Council. In practice the self authorisation of journals rarely happens, this is corroborated from the work which we have done in analysing the journals posted by management during the year. There were only a few occasions in year where this did occur and the Fund have demonstrated to us that their compensatory control of reviewing journal posting is effective as they had identified these journals during the year and they have subsequently reversed them and a new journal with clear segregation of duties had been input into the ledger. There have not been any changes to the control environment in year. In the past we had reported this finding in the Council's Audit Findings Report, as the Council designs and administers the General Ledger. However, we have determined it appropriate to report this control deficiency within the Pension Fund's Audit Findings Report also.	As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency. We do not deem this a significant deficiency as the Pension Fund have sufficient controls in place such as; running monthly reports and reviewing all journals posted in month, which clearly shows who has posted and approved each journal, performing monthly budget monitoring against actual performance and the net asset statement and fund account are reconciled monthly against the journals reports to ensure no omitted journals postings or incorrect journals have been posted. In response to this deficiency we gained an understanding of the compensatory controls in place at the Fund to ensure that all journals are reviewed before posting. We target tested any journals which initially were input and approved by the same staff member. We also assessed the whether the authorisation procedures were correctly followed for each journal that was selected for testing. **The results of this testing remain ongoing, however no issues have been identified to date.**

2. Financial Statements – key judgements and estimates

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

Item	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £2,883m	The Pension Fund has investments in unquoted equity and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £2,883m. 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 2021-22, largely due to significant positive changes in the market value of the investments, primarily as a result of the markets continuing to regain lost growth as a result of the Covid-19 Pandemic in prior years. However, the majority of this growth was attained in the first three quarters of the year with the impact of the Russian invasion of Ukraine impacting markets as at 31 March 2022 and reducing growth.	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. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement. We are still finalising our work on this area. We still need to obtain external confirmations, audited accounts and service auditor control reports for 6 investment fund managers. We also still need to complete our testing on the audited accounts and service auditor control reports. Where a service auditor control report is not provided alternative assurance has been gained – see page 21.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [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

Item	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,939m	The Pension Fund have investments in unquoted bonds, pooled investments and derivatives that in total are valued on the Net Asset Statement as at 31 March 2022 at £2,2,331m. The Fund also held investment liabilities of £391m as at 31 March 2022. The net position was £1,939m. 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 £193m in 2021-22, 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. This work remains ongoing but no issues have been identified to date. 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. As at the time of writing our report we are still awaiting their findings.	Light Purple
Directly held Investment Property - £568m	The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2022 at £568m. 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 31/3/22. The value of the investments have increased by £104m in 2021/22, this was largely as a result of increases in the fair value of the properties on revaluation as at 31/3/22. Included in the above movement in valuation is also a net increase of £6m on the portfolio valuation as a result of purchases and sales throughout the financial year.	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 investment properties. 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. We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer.	Light Purple

Assessment

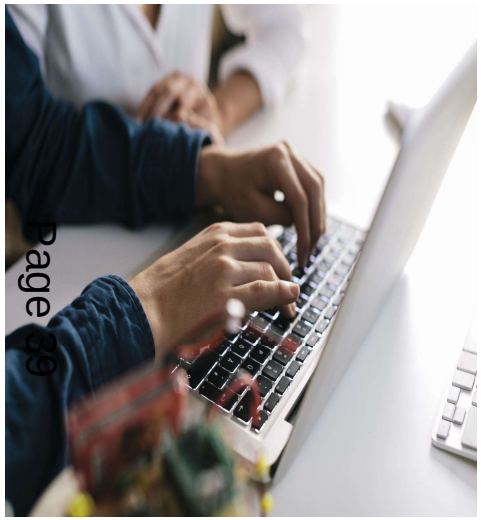
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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 - 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 one member of the Pensions Committee. We are however satisfied that the fund has appropriate procedures in place to obtain and monitor declarations.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included 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. We are still awaiting confirmations from a number of fund managers in our level 3 investments sample – see page 7.
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. Updates have been made to disclosures as a result of findings noted from our Technical team's hot review of the accounts to improve the disclosures and their readability. 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. We note that management provided us with a set of draft financial statements one month in advance of the national deadline for preparing accounts. We thank management for their assistance in ensuring the smooth execution of the audit.

2. Financial Statements - other communication requirements

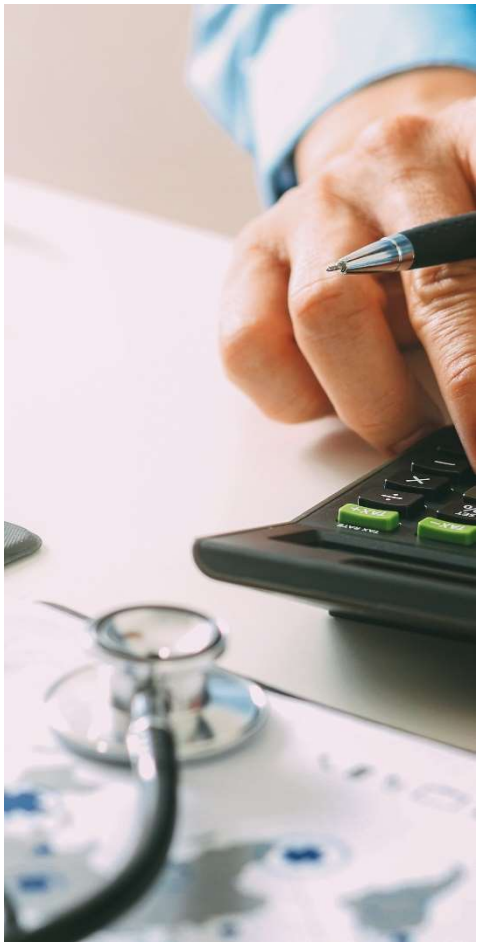
Our responsibility

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

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

Details of fees charged are detailed in Appendix C.

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	£20,000 (£5,000 base Fee plus £1,000 for each set of audit procedures - 15 Expected)	Self-Interest (because this is a recurring fee)	The fee for this work is recurring but not significant compared to the audit of the financial statements of £48,000 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 £20,000 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. Follow up of prior year recommendations

We identified the following issue in the audit of Merseyside Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported in our 2020/21 Audit Findings report. We are pleased to report that management have addressed our prior year recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	2020-21 Audit Findings Report During our audit of level 3 investments, it was identified that service auditor control reports are not obtained and reviewed by management for all investment managers used. Management assert that initial Due Diligence and ongoing discussions between Merseyside Pension Fund and the Investment Managers takes place which covers the controls in operation. As part of quarterly valuation processes, management also review internal controls for any outlier investment manager valuations on a sample basis. Management also obtain reports from investment managers on an exception basis where there has been a failure with internal controls. There is a risk that controls in place at investment fund managers may have changed since the point in time which the initial Due Diligence was undertaken and that it is best practice to ensure that there is documented evidence confirming that investment fund managers are maintaining effective controls over the valuation of Merseyside Pension Fund's assets. There are compensating controls in place which reduce this risk; however, they do not cover all investment managers. Therefore, gaps in assurance remain. It is recommended that Management obtain and review a service auditor controls report for each investment manager as part of the financial statements' closedown procedures. Where investment managers do not have a service auditor control report covering the audited period, Management should obtain sufficient alternative evidence to satisfy themselves that appropriate controls were in operation for the period. Management response Management recognise there is a potential gap in assurance. We will discuss with the external auditors on how best to address the issue due to the number of investment fund managers which are used by the Fund and the potential impact on the Pension Fund's resources. A further update on progress made will be included on future External Audit reports presented to the Pensions Committee.	Merseyside Pension Fund have over 200 level 3 investment fund managers. A significant proportion of these are not required to obtain a service auditor report due to their size. We have therefore, held discussions with management during the year to understand the updated arrangements in place with regards to gaining assurance that controls at external fund managers are operating effectively. There are numerous meetings which take place on monthly and quarterly bases where portfolio managers within MPF meet with the investment fund managers to discuss and review performance at the investment funds. As part of this exercise, MPF assess internal controls (on sample basis – from those identified in the quarterly reports) in place; particularly around valuation processes and methodologies to assure themselves that the control environment around the valuation process is working, robust and up to date. Explanations around large Net Asset Value write ups/downs are sought, discussed internally, and compared against industry benchmarks and across internal portfolios. Also, every investment fund has its own Fair Value Pricing Committee (or similar forum) which provides a discussion forum for their internal investment teams and the independent valuers to agree write up/down of NAV of a specific investment. As part of MPF's monitoring, they regularly ask for updates on these discussions held at the FVPC forum. The minutes and updates from these valuation discussions are also shared with the Limited Partners Advisory Committees (LPACs) where there are large movements in NAVs and on advisory boards where MPF has an LPAC seat these minutes and updates are also reviewed by an MPF representative. As part of our level 3 investments testing this year there were 18 investment funds where they did not provide us with a service auditor controls report. For each of these investments we have reviewed the documented engagement which MPF have had with the investment fund throughout the year to satisfy themselves that appropriate controls in relation to the valuation of assets are in place. **As at the time of writing this report this work is yet to be finalised.**

Assessment

✓ Action completed

X Not yet addressed

B. 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

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

Impact of unadjusted misstatements

All unadjusted 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 2022.

Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investments Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement. We are still finalising our work on this area, the value of the unadjusted misstatement may change once the further work to review all level 3 investment valuations has been completed.	£43m	£43m	£43m	Value is below performance materiality
Overall impact	£43m	£43m	£43m	

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

B. 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	Adjusted?
Note 24 Additional Voluntary Contribution (AVC's) Investments At time of finalising the 2020-21 audited accounts the Fund was still awaiting information from third parties in order to finalise the Additional Voluntary Contributions note. As such no figure was included for prudential in the 2020-21 AVC's note. The information for 2020-21 was received during the year and so management have restated the prior year figures in the draft 2021-22 accounts. Similarly, at the time of preparing the draft accounts, figures for Prudential were not yet available however they have since been received and management have updated the 2021-22 AVC's note in the revised financial statements.	✓
Annual Report As part of our review of the Annual Report, a number of minor presentation and disclosure amendments have been made to the revised Annual Report.	✓
Disclosure changes As a result of the review of the accounts by the Manager, EL and our technical team as part of the hot review, a number of disclosure improvements have been made. Amendments have been made to: Note 3 – Significant Accounting Policies – amendments made to investment management costs policy Note 5 - Estimation Uncertainty – amendments made to ensure the disclosure covers all asset classes with material uncertainty Note 15 – Basis of Fair Value – updates made to the basis of valuation descriptions and key sensitivities Note 17 – Nature and extent of risks from Financial Instruments – extra narrative added to detail how interest rate risk and currency risk are managed Note 17b – Credit risk – extra disclosure added regarding cash held with fund managers	✓
Note 8 – Transfers In During the year, the fund had a material transfer in. This has been disclosed in the table at Note 8 of the draft accounts. However, additional narrative has now been added to enhance the disclosure as this is a material and one-off transaction.	✓

C. 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	£48,000	£48,000
Total audit fees (excluding VAT)	£48,000	£48,000

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS19 Assurance Letters (£5,000 base fee + £1,000 per letter – 15 expected)	£20,000	£20,000
Total non-audit fees (excluding VAT)	£20,000	£20,000

Audit Fee per the draft financial statements is £43k. The audit fee has been calculated based upon an estimated fee for the year of £51,249 (basis of estimation is final 20/21 audit fee) plus £12,250 in respect of IAS 19 letters (based on PY fees) less £20,240 of rebates received from central government.

The difference between gross total audit fees for the year charged in the Pension Fund's Fund account (per the draft accounts) of £63k and the total fees to the left of £68k is £5k. This will be amended for in the final version of the Pension Fund's financial statements.

C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA	£28,399
Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA	
Raising the bar – increased FRC Challenge	£1,875
Reduction in materiality due to audit complexity	£2,188
Enhanced audit procedures for Directly held property	£2,188
Enhanced audit procedures for Investments	£1,750
Appointment of Auditor Expert for Directly held property	£3,500
Increased audit requirements of revised ISAs 540	£3,600
Additional work on journals posted by management	£2,000
Additional work on derivative investments/liabilities	£2,500
Total audit fees (excluding VAT)	£48,000

D. Audit opinion

Our 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 2022 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 2021/22.

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 2022 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 2021/22; 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 2021/22 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.

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, 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

D. Audit opinion

2021/22, 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.

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 2021/22, 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:

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  - Journals, in particular with regard to manual journals, those journals over 20x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters, senior management personnel or self-approved.
  - 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, those journals over 20x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters, senior management personnel or self-approved.
  - 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.
- Our 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
    - 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.

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D. Audit opinion

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]

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

Manchester

[Date]

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WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2021/22 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 2021/22
- A letter of representation prepared by Officers on behalf of the Committee.

RECOMMENDATION

That the Local 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 Not relevant for this report as it is a statutory requirement.

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 2022 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 for 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 £11bn. 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 There are none directly arising from this report.

REPORT AUTHOR: **Donna Smith**
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APPENDICES

Report to Pensions Committee September 2022
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.	**1 December 2021** **10 November 2020** **17 July 2019**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

28 SEPTEMBER 2022

REPORT TITLE:	**MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2021/22 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 2021/22
- A letter of representation prepared by Officers on behalf of the Committee.

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end. The Fund's financial position for the year ended 31 March 2022 is reported as £11.0bn.

The primary reporting publication for the Fund's Statement of Accounts is part of Wirral Council's Accounts, as the Administrating Authority. The Local Government Pension Scheme (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 2022. 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 external audit increasing their fee during the course of the audit. At the time of writing this report, the Fund has agreed to this adjustment 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 2022.

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

(1) approve the audited Statement of Accounts for 2021/22 and consider the amendments to the accounts, the Audit Findings Report and the Letter of Representation.

(2) refer the recommendations above to the Audit and Risk Management Committee.

(3) approve the Annual Report of Merseyside Pension Fund for 2021/22 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 Option to not present to Committee, however, this would not meet statutory requirements and would be detrimental to the Council.

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 2022 in accordance with prescribed guidance.

3.3 The Statement of Accounts, including notes were prepared and available for audit by 1 July 2022, one month ahead of the statutory deadline for 2021/22 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 the external audit fee increasing during the course of the audit.

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

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 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.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

REPORT AUTHOR: **Donna Smith**
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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 2021/22
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.	**20 September 2021** **2 November 2020** **16 July 2019**

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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

my ref

Dear Sirs

Merseyside Pension Fund
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2022 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 2021/22 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 2021/22 ("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. There are no material prior period errors to bring to your attention.

xiv. We have updated our going concern assessment and cashflow forecasts. 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, where/if necessary, 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 28 September 2022 and Wirral Council's Audit & Risk Management Committee at its meeting on 17 January 2023.

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

Date…….

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

Merseyside
PENSION FUND

Merseyside Pension Fund Report & Accounts 2021/22

Contents

Cover photograph: Clyde Wind Farm

Merseyside Pension Fund supports the energy transition, primarily through its investments in green energy and, in particular, through its membership of and participation in the GLIL infrastructure platform, a joint venture between the Northern LGPS and Local Pensions Partnership Investments.

GLIL Infrastructure acquired a stake in Clyde, one of the largest operational wind farms in the UK which, with the Fund's investment, has increased its energy output by more than 50%.

Management Structure At 31 March 2022

Administering Authority
Wirral Council

Pension Fund Management Committee
Chair:

Cllr Pat Cleary	**Wirral**

Vice Chair:

Cllr Cherry Povall, JP	**Wirral**
Cllr Jo Bird	**Wirral**
Cllr Chris Carubia	**Wirral**
Cllr Helen Collinson	**Wirral**
Cllr Tony Cox	**Wirral**
Cllr Jeff Green	**Wirral**
Cllr Adrian Jones	**Wirral**
Cllr Brian Kenny	**Wirral**
Cllr Les Rowlands	**Wirral**
Cllr Joe Walsh	**Wirral**
Cllr Jayne Aston	**Knowsley**
Cllr Tom Cardwell	**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 Resources**

Advisors to Investment Monitoring Working Party
Director of Pensions
Senior Portfolio Manager
Aon
Rohan Worrall
Paul Watson

Local Pension Board
Independent Chair:
John Raisin

Employer Representatives:

Geoff Broadhead	**Formerly of 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**
Robin Dawson	**Pensioner 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

Custodian of Assets
Northern Trust

Responsible Investment Advisors
Pensions and Investment Research Consultants Ltd

Property Advisors
CBRE Capital Advisors

Property Managers
CBRE Asset Services

Property Valuers
Savills

Performance Measurement
Northern Trust

Solicitor
Wirral Council

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

LGPS Investment Pool
Northern LGPS (with Greater Manchester Pension Fund and West Yorkshire Pension Fund)

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 2022. 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 and the Pension Board, to ensure that they remain appropriate.

Overview

This time last year, I described the effects of the Covid-19 pandemic on the working arrangements of the Fund. I am pleased to advise that as this year has progressed, we have been able to resume normal working practices as greater numbers of staff returned to the office in line with guidance. Importantly, all functions are now operating normally. We continue to deliver efficiencies from the digitisation of services and have made very good progress in rolling-out the monthly data collection initiative to our employers.

Investments and Performance

Financial markets have been volatile contending with the post-pandemic hangover, the unwinding of quantitative easing, inflation and geopolitics. In equity markets, a sharp rotation from growth to value stocks occurred and towards the end of 2021, rising inflation started to manifest itself with the UK's Bank of England becoming one of the first major central banks to start raising interest rates. This being quickly followed by the US Federal Reserve and the European Central Bank is expected to follow suit. Inflation has risen sharply exacerbated by Russia's unwarranted invasion of Ukraine. In particular, energy and food prices have spiked and show little sign of abating in the short-term. Continuing high inflation is a significant pressure on our Funding levels with pension liabilities linked to the Consumer Prices Index (CPI).

Despite these headwinds, it is very encouraging to report that the Fund's assets increased in value by around £1bn even allowing for the more than £350m in pension disbursements over the year.

We continue to make good progress on sustainability matters which included a review and refresh of our Responsible Investment Policy both at a Fund and a Pool level. The intention was to develop a comprehensive policy framework that reflects the evolving responsible investment landscape and supports the three Funds in the Northern LGPS in staying abreast of existing and emerging Environmental, Social and Governance (ESG) related issues. The policy framework was guided by recommendations made by the Principles for Responsible Investment (PRI) as well as a review of best practice among other asset owners, both within the Local Government Pension Scheme and beyond. We believe that increasing the scope of the current responsible investment policy framework will enable more meaningful research and engagement on a broader set of issues. There is a greater emphasis on environmental and human rights issues. This, in turn, will help meet our stewardship and fiduciary obligations.

Our work on developing a climate risk strategy to ensure the resilience of our broader investment strategy is also progressing well. The Fund continues to deploy capital at scale in supporting the energy transition, primarily through its investments in Infrastructure, particularly through our participation in the GLIL infrastructure platform. This year, amongst other things, substantial investments have been made in a smart meter business, battery storage and 11 onshore Irish windfarms. MPF has over £350m invested in wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

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

During the year, we have been preparing for the actuarial valuation (31 March 2022) with a focus on ensuring the integrity of our data. We await the final figures, but our overall Funding position is anticipated to have improved modestly from the 102% level at 31 March 2019. This is principally due to stronger than forecast investment returns, but changes in demographic assumptions have also been helpful, although this will vary from employer to employer. However the hike in inflation along with the risk of global stagflation is creating uncertainty with the potential for a material increase in liabilities post the valuation date resulting in volatility in future contribution rates.

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 Finance Act 2022, and its requirements in relation to the change in minimum pension age along with the potential for transitional protections creating further complexity in administering the Scheme. There have been new regulations introduced to protect members from Pension Scams to supplement industry best practice guidance. There are also a number of national initiatives on the horizon including Pension Dashboards, the Good Governance report and the Pension Regulator's single code.

Communication with Fund Employers and Members

The pandemic has reinforced how important it is to effectively communicate 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 to three investments which support the regeneration of the City Region and bring 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 will deliver cost savings and efficiencies.

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 2022

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 2021/22, 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 Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government). The 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.

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 and members of the in-house investment team.

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.

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 the Fund's administrative, management and investment risks are 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 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, detailing 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.

These documents are all subject to regular scrutiny by Pensions Committee, Pensions Board and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them.

Additionally, and where applicable, the Fund adheres to the Administering Authority's constitution in managing its operations. Legal opinion and advice are 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 and its advisors have been working on a review and refresh of the Fund's Responsible Investment (RI) policy which is contained within the Investment Strategy Statement. In the light of this, two workshops were organised to which Committee and Board members were invited. The first covered the scope of an RI policy and the various global standards which are typically adopted in its formulation. The second provided a detailed look at human rights as this is an area of particular interest to the Fund and its stakeholders.

Bespoke training includes the Local Government Employers' Trustee Fundamentals training and other conferences and seminars. This year, the Fund has subscribed to the LGPS On-line Learning Academy and access to its resources has been made available to all Members of Committee and Board.

The Fund is a member of the Local Authority Pension Fund Forum, and the Chair of the Pensions Committee and officers attend 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
April	Local authority responsible Investment Seminar
May	PLSA LGPS conference
May	All-Party Parliamentary Group for Local Authority Pension Funds
September	LGC Investment Summit
October	PLSA Annual Conference
Oct-Dec	Fundamentals Training
December	LAPFF Annual conference
March	LGC Investment Seminar
March	PLSA ESG Conference

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

Pension Board Report

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

Statement of Purpose for the Merseyside Local Pension Board

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

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

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

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

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

Constitution/Management Arrangements

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

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

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

Executive Summary

The Board continues to play an active and constructive role in its oversight of the Fund's activities.

Under its Terms of Reference, the Local Pension Board has no role in investment decision making. However, in line with the LGPS Regulations, the Board has a clear role in reviewing governance and operational arrangements relating to any activity including the investment activity of the Fund and undertakes this through consideration of the Working Party minutes and attendance at the Working Parties.

The Board actively considered the development, as proposed by the three relevant Administering Authorities, of the Northern LGPS Investment Pool. This included passing two positive and important resolutions at the 1 December 2021 meeting of the Board seeking the finalisation of the Joint Committee by concluding the appointment of the employee representatives. In addition, at each Meeting of the Board during 2021-22, a 'Northern LGPS Update' was received including minutes of recent meetings of the Northern LGPS Joint Committee.

Members of the Board were able to participate in a workshop organised by the Fund in relation to its Responsible Investment policy which comprises an important element of the Investment Strategy Statement. The final version of the updated Investment Strategy Statement, as approved by the Pensions Committee, was presented to the Board at its meeting held on 1 December 2021.

As evidenced in the Board's work plan, the Fund continues to deal with a raft of regulatory, statutory and policy developments. The Board has played its part in reviewing and commenting on these proposals and their implications for stakeholders.

The Chair made a presentation on the Board's activities to Pensions Committee which was well received. The Chair's report can be found on the Council's website at: **mpfund.uk/lpbreport**

Four meetings were held during the year and a rigorous training programme, involving internal and external training, was undertaken. Additionally, the Fund made available to all Board Members the LGPS Online Learning Academy (LOLA) developed by Hymans Robertson. Details of training are set out in the tables at the conclusion of the report.

Board Changes

Mr Robin Dawson, formerly an employer representative on the Board, was appointed following a selection exercise to fill the pensioner representative vacancy.

Issues considered by the Pension Board 2021 - 2022

Agenda Item	23 Jun	20 Sep	1 Dec	24 Feb
Annual Report and Accounts 2020-21			•	
Bond Review and Interaction with Covenant	•			
Budget Outturn 2020-21 and Final Budget 2021-22	•			
Catalyst Fund update				•
Complaints Policy				•
External Audit Findings Report			•	
External Audit Plan 2020-21	•			
Internal Audit Annual Report 2020-21		•		
Investment Strategy Statement			•	
LGPS update	•	•	•	•
Member Learning and Development Programme				•
MPF Statement of Accounts 2020-21 Management Questions	•			
Northern LGPS update	•	•	•	•
Office Working Arrangements			•	
Pension Board Review 2020-21 and 2021-22 Workplan	•			
Pension Fund Budget 2022-23				•
Pensions Administration Monitoring Report	•	•	•	•
Risk Register	•	•	•	•
Treasury Management Policy 2022-23 and Annual Report 2020-21				•
Working Party minutes	•	•	•	•

Pension Board Work Plan 2022 - 2023

Agenda Item	8 Jul	28 Sep	16 Dec	22 Feb
Actuarial Valuation - outcome				•
Annual Internal Audit Report 2021-22		•		
Budget Outturn 2021-22 and Final Budget 2022-23	•			
Catalyst Fund update				•
CEM Benchmarking reports		•		
Compliance Manual				•
External Audit Findings Report		•		
External Audit Plan	•			
Funding Strategy Statement - revised				•
Good Governance Project				•
Investment Strategy Statement - revised				•
Levelling Up consultation				•
LGPS update	•	•	•	•
Member Learning and Development Programme				•
MPF Annual Report and Accounts 2021-22		•		
Non-recovery of Admission Body deficit	•			
Northern LGPS update	•	•	•	•
Pension Board Review 2021-22 and 2022-23 Workplan	•			
Pension Fund Budget 2023-24				•
Pensions Administration Monitoring Report	•	•	•	•
Pooling Consultation				•
Risk Register	•	•	•	•
Statement of Accounts - Questions to Management	•			
TCFD Reporting - consultation				•
Treasury Management Policy 2023-24 and Annual Report 2021-22				•
Working Party minutes	•	•	•	•
Write-off of Property Arrears/Pension Overpayments	•			•

Pension Board Attendance and Training Record 2021-22

PENSION BOARD	DATE OF APPOINTMENT/ DECLARATION OF INTEREST	PENSION BOARD MEETINGS 2021 - 2022				IMWP	GRWP
		23 JUN	20 SEP	1 DEC	24 FEB	2021/22	2021/22
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	•		•	•	#	
Stephen Van Arendsen	1 March 2020		•				
Robin Dawson	1 July 2021		•	•	•		
Cllr Pat Cleary*	In attendence			•			

** Chair of Pensions Committee* *# In attendence*

Training & Events Record 2021-22

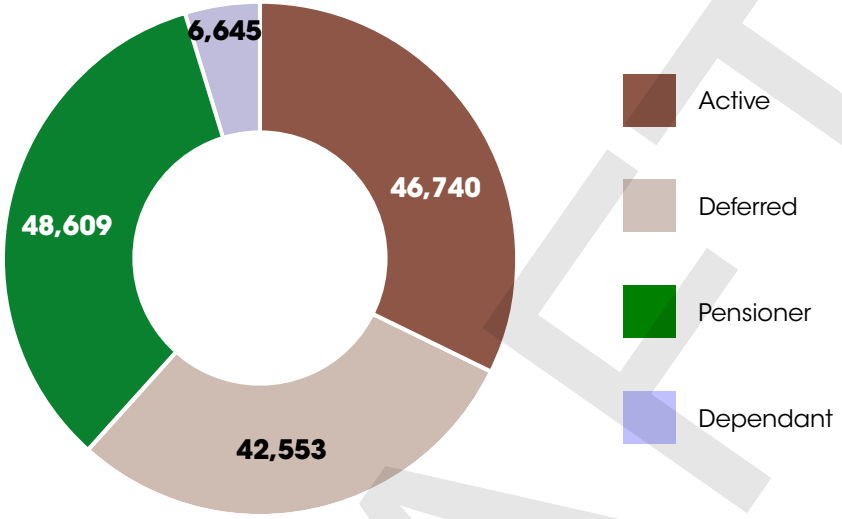
ATTENDANCE RECORD	PLSA Local Authority Conference	PLSA Annual Conference	Local Pension Board Members & LGPS Officers Autumn Seminars 2021	LAPFF Say on Climate Conference at Church House Westminster	PLSA ESG Conference	PLSA Local Authority Conference 2022 - Edinburgh
	18-19 MAY 2021	12-14 SEP 2021	27 & 28 SEP 2021	23 FEB 2022	9-10 MAR 2022	24-25 MAR 2022
John Raisin (Chair)			•			
Donna Ridland	•		•	•		
Roger Irvine		•			•	•
Patrick Moloney	•			•	•	
Robin Dawson			•			

Costs of Operation

	2021/22 £
Conference	3,895
Travel/Subsistence	696
Allowances	23,869
Total	**28,460**

Membership Statistics

Membership as at 31 March 2022



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				243	1,789	3,077	3,756	4,535	5,077	5,549	7,543
Deferred				28	412	1,380	3,394	4,860	5,550	6,068	8,297
Pensioner							4	9	26	70	295
Dependant	2	24	61	125	38	11	13	18	31	57	138

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	8,094	5,312	1,514	251							**46,740**
Deferred	8,228	3,652	569	97	17	1					**42,553**
Pensioner	2,991	8,663	11,654	10,331	7,207	4,147	2,237	796	166	13	**48,609**
Dependant	283	458	675	920	1,121	1,037	964	505	142	22	**6,645**
										Total	**144,547**

Key Membership Statistics 2018 - 2022

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2022	46,740	42,553	48,609	6,645	**144,547**
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	38,376	43,495	6,665	**137,487**

New Pensioners in Year 2021/22 by Retirement Type

Retirement Type	Number
Normal	1,304
Early	750
Il-Health	91
Total	**2,145**

Scheme Administration Report

Statutory Framework of LGPS

The Scheme is a public service pension scheme regulated by statute through the Department for Levelling Up, Housing and Communities (DLUHC). 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.**

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. The 'underpin' is to be extended to all members irrespective of age as a result of the McCloud remedy.
- 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.

The Administration Team

The Administration Team is cognisant that the LGPS plays a crucial role in the local community and is committed to the delivery of high-quality pensions to ensure good living standards in retirement for former local government workers and their dependants.

As with other areas of local government, the LGPS has been subject to a period of rapid change. Since 2014, the Scheme has seen the introduction of a new style of benefits and a rapid expansion of the number of employers as well as being impacted by legal rulings and changes in government policy.

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 admission of new employers and engagement with our customers.

Service Delivery Developments and Key Activities

The Team has been resilient in adapting to the change involved in moving to a hybrid working model following the backdrop of COVID-19, with the primary focus on business needs along with an optic on staff retention due to the propensity for homeworking across the LGPS. The Fund is continually seeking to align its operational model to meet its stakeholders' demands of a modern, streamlined, and supportive service.

The provision of online information and support has increased and as the demand for face-to-face engagement remains, we have been able to provide a diverse and accessible service.

Preparation For Triennial Valuation

The reporting year 2021/22 has been busy for the team, with several data management workstreams commenced in preparation for the submission of data extracts to the actuary, to complete the triennial valuation. There has been a significant investment of resources to validate the data to an appropriate level of accuracy and to investigate any data gaps with employers, as the cleanliness of member data plays a key part in the valuation outcome and employer contribution schedules for the financial period 1 April 2023 to 31 March 2026.

Monthly Data Collection (i-Connect)

The implementation of i-Connect, which is a platform for employers to submit monthly pay and contribution data, has gathered momentum this year following a hiatus in the project as the Pension Regulator directed Funds to refocus resources to meet immediate operational priorities during the pandemic.

At the close of the Scheme Year, fifty percent of employers had successfully onboarded onto the platform and a high number are submitting data monthly. It is the intent to complete the project during the next Scheme Year as the Fund can no longer support annual data returns due to its move towards self-service platforms enabling members to access current estimates of pension benefits and in preparation for the government-led Pension Dashboard Programme.

Annual Benefit Statements and Data Quality Activity

The production of Annual Benefit Statements (ABS) in-line with the statutory issue date of 31 August 2021 is a key priority for the Employer Compliance and Membership Team during the first quarter of each Scheme Year.

To ensure compliance with legislation, the Annual Contribution Return workbooks were issued before 1 April 2021 to all active employers who had not been onboarded to i-Connect.

The Fund experienced a very positive response to the annual return exercise, with most workbooks being submitted within the prescribed timescale. Work was undertaken to assess data accuracy and completeness including reconciliation of the financial information against the Fund accounts before the timely posting into the Fund systems.

This in turn facilitated the prompt resolution of data queries and production of ABS, which has resulted in the Fund being able to achieve a 99% production rate of annual benefit statements for active members ahead of the statutory deadline.

Bulk Transfer

The Local Government Association (LGA) have been in discussion with MPF over several years regarding a possible Substitution of Funds in respect of its subsidiary company the Improvement and Development Agency for local government (IDeA). This is where an employer asks the Secretary of State to move the administration of its pension obligations under the LGPS to an alternative Pension Fund.

LGA confirmed their decision to apply for a direction to substitute Merseyside Pension Fund for Camden Pension Fund with effect from 1 April 2021 in accordance with Part 2 of Schedule 3 of the LGPS Regulations 2013.

The transfer of administration for IDeA pension obligations resulted in a bulk transfer of assets and liabilities along with 913 member records including actives, deferred and pensioner payroll from Camden Pension Fund to Merseyside Pension Fund. A bulk payment amount circa £200m completed the transfer following careful preparation and engagement with respective parties, utilising resources across several disciplines during the period.

Revised Operational Process for Annual Allowance Calculations

During the reporting period, the Fund has reviewed the annual allowance work processes to reflect amendments to the threshold and adjusted income introduced by the Finance Bill 2020, effective for the tax year 2020/21.

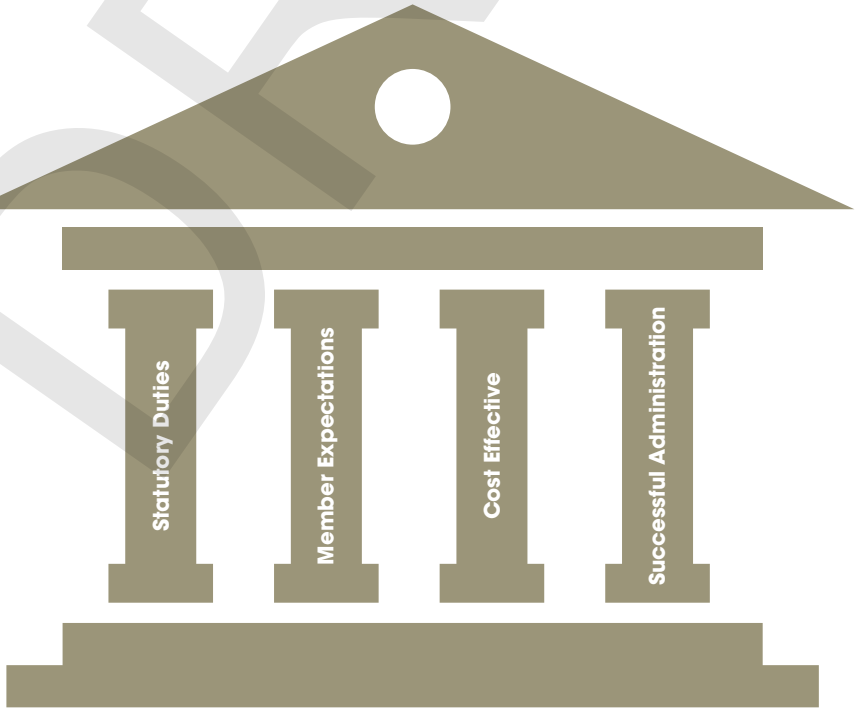
The pension saving statements produced by the Fund have also been reformatted to include data relating to Additional Voluntary Contributions paid over the input period, providing a complete record of pension savings with the Fund to assist members in informing their tax position.

Pension Regulator Scheme Return

The Fund completed and submitted tPR's annual scheme return, in accordance with the deadline set by the Regulator. The return is used by the regulator to gather information to identify potential risks in regard to the governance and administration of schemes.

Four Pillars to Support Value for Money

The team is committed to administering the Fund successfully in a cost effective way whilst meeting member expectations and ensuring compliance with statutory duties. In achieving this goal, it is the Fund's view that these efforts will lead to the provision of a 'value for money' service for all stakeholders.



Compliance with Statutory Duties

The team constantly strive to meet all statutory duties as set out in the LGPS and overriding legislation by undertaking the following actions:

- subscribing to industry news updates, having representation on national boards, attending peer user groups, and taking part in consultation processes
- ensuring regular audited compliance and checking procedures are in place
- following the Pension Regulator's Code of Practice and ensuring operational processes highlight any potential breaches of the law
- take part in National Fraud Initiative checks and undertake mortality screening.

Meeting members' expectations

The team place the members at the centre of its business objectives and look to meet member expectations by:

- having clear and achievable targets for all administrative tasks and projects
- regularly reviewing procedures and communications and seeking feedback to make continual improvements
- ensuring all complaints, compliments and disputes are reviewed to identify any learning points
- carrying out research, benchmarking, and peer review programmes to ensure we adopt policies and processes that are best practice within the industry.

Ensuring service delivery is cost effective

Our costs are managed and monitored by:

- setting an expected expenditure plan each year in line with the business plan
- regularly monitoring spending and reporting details of this to the appropriate forum
- benchmarking our costs by taking part in national (CEM) benchmarking exercises.

Ensuring success

The team strive to achieve success by:

- having a clear and measurable business plan in place
- using project management tools when implementing service improvements
- regularly reviewing resource, workloads and planning for the impact of future changes
- holding regular service update meetings for all teams and managers
- submitting comprehensive reports and information to the appropriate Working Groups and the Local Pension Board to enable effective scrutiny to take place
- taking part in peer user groups
- measuring procedures against the Pension Regulator's Code of Practice
- outlining expected service standards between the Fund and employers in the Pensions Administration strategy and monitoring performance against these standards.

National Engagement - Scheme Consultations

During the year, the Fund responded to the consultation on the national increase of the 'normal minimum pension age' from age 55 to age 57. The main purpose of the government's policy is to ensure that pension savings are only used to provide income and security in later life, and to broadly realign the earliest retirement age to be 10 years earlier than state retirement age.

The Fund response to the consultation questions highlighted the main points of concern, that there is a tangible risk that the increase to minimum pension age will be unpopular with savers, as this will require employees to both work and lock money away for a longer period. It is the Fund's view that the policy objective appears counterintuitive to the success achieved by Government, to extend pension provision amongst workers via the auto-enrolment programme.

Legislative Change

Finance Act 2022

The Finance Act received Royal Assent on 24 February 2022 with the key provision relevant to the LGPS being an increase of 'normal minimum pension age' from age 55 to age 57 from 6 April 2028. This increase will not apply to members of uniformed service pension schemes. The Act provides for protected pension ages for members who meet the entitlement condition whereby they do not need the consent of an employer before they can take their benefits at a particular age.

We do not yet know whether DLUHC intend to amend the LGPS regulations to introduce a protected pension age and are mindful that if protections are not applied, some members will rush to retire before the step-up in the minimum retirement age takes effect.

Pension Scams - New Restrictions on Transfer Payments

The Occupational and Personal Pension Plans (Conditions of Transfers) Regulations 2021 took effect from 30 November 2021, with the objective to discourage transfers to scam schemes. The regulations introduce further legal restrictions on a member's statutory right to transfer. They give administering authorities tools to act if they have suspicions about the circumstances that led the member to request a transfer. The member will no longer be able to insist on a statutory transfer taking place in these circumstances.

Transfers to UK public service schemes, master trusts and collective money purchase schemes are not subject to the revised provisions. Since coming into force, the administration team have been updating processes based on the guidance available from tPR and LGA.

Prior to the new regulations coming into force the Fund complied with the Pensions Scams Industry Group code of best practice and is a signatory to the Pension Regulator's campaign to combat pension scams.

McCloud Remedy - Amendments to The Statutory Underpin

The McCloud judgement is a high-profile age discrimination case which emerged when the Government reformed public service pension schemes in 2014 and 2015, introducing protections for older members, by virtue of a final salary underpin. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against as they were not afforded the same protections. In July 2019, the Government confirmed that there will be changes to all public sector schemes, including the LGPS, to remove this age discrimination.

Consequently, the Government issued a consultation on 16 July 2020 in regards a McCloud remedy for the LGPS in England and Wales. Subsequently, in the absence of a full government response, a ministerial statement was issued on 13 May 2021 setting out the proposals to address the discrimination.

The Public Sector Pensions and Judicial Offices Bill seeks to amend the Public Service Pensions Act 2013 by making provision to rectify the unlawful discrimination and provide for the final salary underpin to be extended to younger members for the remedy period of 1 April 2014 to 31 March 2022. Several amendments have been made to the Bill in respect of the LGPS during the parliamentary process, specifically, extending the eligibility criteria for members. The amendments put forward in the House of Commons have now been considered and agreed in the House of Lords and the Bill received Royal Assent on 10 March 2022.

The LGPS regulations are still awaited, paving the way for the remedy to be implemented in the LGPS with an effective date of 1 October 2023.

The Fund is represented on 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.

To ensure member records are 'McCloud complaint,' officers continue to work on collating and analysing data from employers and are engaging with its system provider in preparing for the implementation of the proposed remedy.

Fund Policies

Complaints Policy

Within the Scheme Year the Fund added a `Complaints Policy' to its suite of governance documents, formalising and enhancing the operational practice adopted in responding to complaints.

The policy outlines the methods and timeframes for recording, investigating, and implementing corrective actions in dealing with complaints from members and employers. It also incorporates an escalation process for complaints to be reviewed by the Fund's Senior Management Team where the complainant is dissatisfied with the actions undertaken by the Service Area Manager to resolve the matter.

The Pension Board considered the draft policy and after making a number of revisions to the document, deemed it suitable for presentation to Pensions Committee on the basis it was equitable to Scheme stakeholders and improves the Fund's governance framework. The Pension Committee approved the Policy on 23 February 2022.

The Funding Strategy Statement (FSS)

All LGPS administering authorities are required to review their FSS between valuation periods, when there is either a material change in the funding regime or the LGPS regulations impacting on funding requirements.

The Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 (effective 23 September 2020) introduced a number of important regulatory changes and supporting national guidance was issued to provide greater flexibility to the Fund and employers in reviewing contributions and managing termination debts in certain circumstances. The Fund considered its policies in these areas and updated the FSS to reflect these changes ahead of inviting all employers to respond to a formal consultation at the beginning of the Scheme Year.

After due consideration of all representations, the revised policy was published on 1 July 2021 on the basis that the new flexible arrangements may only be entered into at the discretion of the Administering Authority, following a written request from the employer and subsequent deliberation as to whether it is in the interests of taxpayers and other scheme employers to agree to the request.

Changes to Governance of the Scheme on the Horizon

The Scheme Advisory Board's (SAB) Good Governance Project which sought stakeholder views on ways in which the governance structures and practices of the LGPS could be improved (with a focus on standards, consistency, representation, conflict management, clarity of role and costs) has progressed with recommendations presented to the Government to implement in the form of statutory guidance and legislation during 2022.

SAB's work will likely result in strengthened Governance Compliance, with the emphasis on:

- changes to the Scheme's regulatory provisions on Governance Compliance Statements
- revised statutory guidance on Governance Compliance Statements
- independent assessment of Governance Compliance Statements
- establishing a set of Key Performance Indicators (KPIs).

Fund Officers have commenced actions to undertake a gap analysis of the Fund's governance framework against the recommendations submitted to the Department of Levelling Up Housing and Communities (DLUHC), with the intention of identifying areas that require strengthening and to build required improvements into resource plans.

The Pensions Regulator

In tandem with the Good Governance Project, the Pensions Regulator (tPR) has consulted on a single Code of Practice to cover all regulated pension schemes, including the LGPS. Whilst the new Code does not extend tPR's powers beyond its existing remit on governance and administration, there are some concerns over how some of the provisions of the revised Code fit with the LGPS. The Scheme Advisory Board is engaging with tPR on behalf of the LGPS.

The Regulator plans to carry a thorough review of the consultation responses and does not expect the new Code to be in force until October 2022.

There are synergies with the Good Governance Project and tPR expectations, with the requirement

to identify current governance and administration policies, documenting when they were last reviewed to highlight any gaps in policies or processes necessary under both initiatives.

There are several new requirements that apply to the Code relating to maintenance of IT systems and Cyber controls, including responsibility to assess and review the internal controls of service providers with a focus on ensuring everything is appropriately documented. A further key area highlighted is the need to ensure appropriate steps are in place to mitigate the risks of pension scams ensuring all legal requirements and industry guidance are robustly applied to processes.

Officers have assessed the requirements of the Code and the key actions to undertake to ensure the Fund is in a good position when the Code comes into force.

The Pension Dashboard Programme

In the 2016 Budget, the Government recommended that the industry should make pensions dashboards available to individual citizens, making it easy for them to engage with their pension savings. This recommendation culminated in the Pension Scheme Act 2021 which provides the legal framework to support pension dashboards.

To take the policy forward, DWP launched a consultation on draft Pensions Dashboards Regulations which closed on 13 March 2022. Several concerns have been raised by LGA with regard to Funds having sufficient resource available to ensure Pensions Dashboard requirements are met, at the same time as having to implement the McCloud remedy. A number of publications from the Pension Dashboard Programme have been released together with an A-Z guide from the Pension and Lifetime Savings Association (PLSA) setting out 26 key issues that need to be resolved to ensure pension dashboards are a success.

Dashboards will be used for presentation purposes only, as no data is held on the dashboard, as it is not a database, but best viewed as a national switchboard connecting citizens to their pension savings across all schemes.

The Fund's Senior Manager for Operations and Information Governance is managing the logistics to ensure that the Fund is appropriately resourced to comply with statutory requirements of the new regulations once published. These areas include data quality, IT system changes and the selection of an appropriate Integrated Service Provider to ensure connection to the dashboard. The current proposed staging date for the LGPS is April 2024.

Collaboration with Peer Funds, Scheme Employers and National Bodies

During 2021/22 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), in the area of member engagement. During 2021/22, collaborative work took place in regards the best practice for processing Data Subject Access requests from members and improvements to Fund Privacy Statements
- A longstanding founder member of the LGPS National Frameworks, we have supported 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.

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:

- improving the member experience of the online MyPension self-service system, and proactively providing useful and valued feedback to the supplier in regard future system design improvements

- the launch of a benefit projector for Deferred members
- the start of a substantial project to provide the functionality for members to make death grant nominations online.

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 is required to demonstrate and record officer knowledge levels, and within the Scheme Year we have subscribed to an online learning academy, (primarily aimed at Pension Committee and Pension Board Members to gain the skills to successfully manage the Fund), which is being trialled by the Senior Management Team before rolling out to other staff members.

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 DLUHC 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 2020/21 'SF3' statistical return was £21.61 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 and Diversity

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

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

Member Communications

The principal communication issued to active and deferred members each year is the Annual Benefit Statement (ABS) and electronic versions have been available 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 and 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. We have seen a slow increase in the number of in-person presentations as a number of our employers adapt to a new hybrid-working model.

Working with the company True Bearing, officers were able to support the delivery of virtual Retirement Planning Events, and feedback has continued to be 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 2020/21 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.

Cyber Security

As the Fund progresses with its Digital Transformation Programme with an ever-increasing amount of administration being conducted online, Cyber security is of paramount importance. Since 2019, the Fund has delivered a specific Cyber Security update to the Local Pension Board in line with best practice guidance from the National Cyber Security Centre (NCSC) and the Pensions Administration Standards Association (PASA).

The Fund's Senior Manager of Operations & Information Governance is a member of the administering authority Information Governance Board and maintains a working relationship with the Wirral Data Protection Officer, the Head of Digital Services and the ICT Services Manager in ensuring that the Fund's Cyber Resilience is monitored and maintained.

Performance Standards

During the Scheme Year, and following agreement by the Local Pensions Board, the Fund changed its key performance measures to those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance for LGPS Funds.

The administration performance indicators for key casework areas are shown below:

Performance Targets	Total Cases	Our Target	Within Target %
1. Deaths - initial letter acknowledgement death	1,715	5 days	99.5
2. Deaths - letter notifying amount of dependant's benefit	785	10 days	91.5
3. Retirements - letter notifying estimate of retirement benefits	755	15 days	99.2
4. Retirements - process and pay lump sum retirement grant	1,486	15 days	98.4
5. Deferred into pay - process and pay lump sum retirement grant	1,246	15 days	96.6
6. Deferment - calculate and notify deferred benefits	3,213	30 days	97.9
7. Transfers in - letter detailing transfer in quote	790	10 days	96.7
8. Transfers out - letter detailing transfer out quote	515	10 days	97.9
9. Refund - process and pay a refund	514	10 days	99.2
10. Divorce quote - letter detailing cash equivalent value and other benefits	186	45 days	100
11. Divorce settlement - letter detailing implementation of cash equivalent value and application of pension sharing order	10	15 days	100
12. Joiners - send notification of joining the LGPS to Scheme Member	6,244	40 days	98.9

(Details given in respect of 12 month period to 31 March 2022)

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	Appeal Decision
Liverpool	
Award of ill health tier	Upheld
Award of Flexible Retirement	Dismissed
Award of ill health to deferred member	Dismissed
Award of ill health to deferred member	Ongoing
Carmel College	
Award of ill health to deferred member	Dismissed
Sefton	
Reason for Leaving	Dismissed
Wirral	
Reason for Leaving	Dismissed
Knowsley	
Award of ill health Pension	Upheld
Award of ill health Pension	Ongoing
Total	**2 Upheld, 2 Ongoing, 5 Dismissed**

Appeals Against Fund Decisions

Reason for Appeal	Appeal Decision
Stage 1 - Transfer Dispute	Dismissed
Stage 1 - Transfer Dispute	Dismissed
Stage 1 - Transfer Dispute	Dismissed
Stage 2 - Transfer Dispute	Dismissed
Stage 2 - Delay in Payment of Death Grant	Upheld
Total	**1 Upheld, 4 Dismissed**

Investment Report

Year ended 31 March 2022

This financial year proved to be almost as dramatic, unprecedented and unpredictable as its predecessor, and is most readily summarised by distinguishing events prior to and post December 2021.

April 2021 was a time of optimistic anticipation for many around the world. Western governments had largely implemented their COVID-19 vaccination programmes, which soon began proving to be potently effective against a nascent, more transmissible Delta variant. A return to normality was perhaps in sight.

Developed market economies began to recover swiftly as COVID-19 social distancing restrictions were eased in loose accord across the globe. Consequently, by December 2021 most OECD countries had exceeded expectations in key economic measures such as GDP (with most OECD countries returning to pre-pandemic levels of output), employment and corporate profits. Consumer demand was particularly strong and indeed was exceeding supply in many goods.

Stock markets, buoyed by the prevailing accommodative monetary stance, increasingly priced in the sanguine economic landscape as the year progressed. This was most apparent in the US, with its three main indices all reaching record highs during December. Other major indices also finished 2021 at elevated levels despite the growing threat posed by the newly emerged Omicron variant.

In general, value stocks, which had strongly outperformed leading into the period fell out of favour as the year progressed. Investors sought growth stocks; corporates that would benefit most from the robust post pandemic recovery, and the perceived prolonged growth cycle. Oil stocks also performed well, and the Fund's underweight stance in this sector is substantially responsible for the underperformance of MPF's UK equity exposure relative to the benchmark index (Figure 1).

The recovery was accompanied by labour shortages, supply chain issues and rising inflation. Prices increased especially rapidly in areas such as food, energy and building materials such as lumber. Semiconductor shortages limited the production of new vehicles.

Throughout the second half of 2021 central bankers insisted that these early signals of looming inflationary pressure were the result of 'transitory' factors associated with the rapid reopening of the global economy, and an unleashing of the pent-up consumer demand generated during lockdowns.

Global bond yields in April and December were not dissimilar. However, yields were generally quite volatile over the period as investors reacted to increasingly frequent warning signals of persistent inflation and assuaging rhetoric from the central banks. Moderate dollar strength was also a general trend over this period.

Before turning to events in the latter part of the financial year, the November COP26 climate change conference held in Glasgow should be noted. Most nations did deliver revised emissions commitments. The new commitments were not sufficient to keep warming within 1.5°C above pre-industrial levels, but if countries are able to deliver on both conditional and unconditional pledges for 2030, plus their longer-term net zero commitments, projected warming amounts to 1.8°C by 2100. Given that this requires full implementation, it is very much a best-case scenario and still short of the 1.5°C goal. However, it does represent some improvement on previous commitment levels.

Even though the pledges made at the showpiece conference disappointed many, the emphasis on environmental, social and governance ESG factors amongst investors, continued to increase over the year.

The events of the first quarter of 2022 would come to characterise the financial year. On 24 February, Russia began its large scale 'special military operation' against Ukraine, forcing over four million people to flee the country as intense fighting ensued and living conditions deteriorated rapidly in many cities.

NATO allies imposed severe economic sanctions on Russia, largely cutting off the Russian economy from international financial markets and trade in goods and services. Prices for natural gas, select grains and metals surged, and Brent crude oil prices topped $100 per barrel amid expectations that sanctions would cripple Russian energy exports and restrict supplies of key commodities.

Central bankers retired the precursory adjective 'transitory' when talking about inflation and explicitly acknowledged that inflationary pressures were now 'persistent'. Despite uncertainty about the economic risks posed by the conflict, most central banks adopted hawkish policies, scaling back monetary stimulus and pressing ahead with interest rate hikes. Others pledged to be mindful of the economic impact of the war in Ukraine and adjust monetary policy as necessary. The Bank of England was the first major central bank to raise its policy rate, hiking rates twice during the quarter, while the US Federal Reserve lifted rates for the first time since 2018.

Government bond yields rose sharply in response to expectations of a prolonged period of monetary tightening. Global equities declined 4.6% and displayed elevated volatility in the first quarter of 2022, amid rising geo-political instability and fears about the global economic growth outlook. The US dollar continued to strengthen modestly against other major currencies, driven by strong dollar denominated commodity prices and the Federal Reserve's relatively hawkish stance. The most dramatic price movements were exhibited in commodities, which soared 33% in aggregate during the quarter. Energy commodities surged 46% amid fears that a sustained military conflict in Ukraine could disrupt energy supplies from Russia, one of the world's largest oil and natural gas producers. Industrial metals and agricultural commodities also rose significantly as these too could be subject to conflict related supply disruption.

The number of COVID-19 cases generally declined across most countries during the quarter, with China the notable exception. In China, the authorities reported nearly 100,000 infections nationwide and imposed strict testing and lockdowns in several areas, including a two-phase lockdown of Shanghai and its 26 million residents. Such action is thought to have exacerbated inflationary pressures given China's overwhelming share of global manufactured exports.

Unfortunately, at the time of writing, a line cannot be drawn under the events of the latter part of the financial year. Geo-politics, downward revisions to global economic growth and persistent inflationary pressures conspire to make the economic outlook very opaque at this juncture.

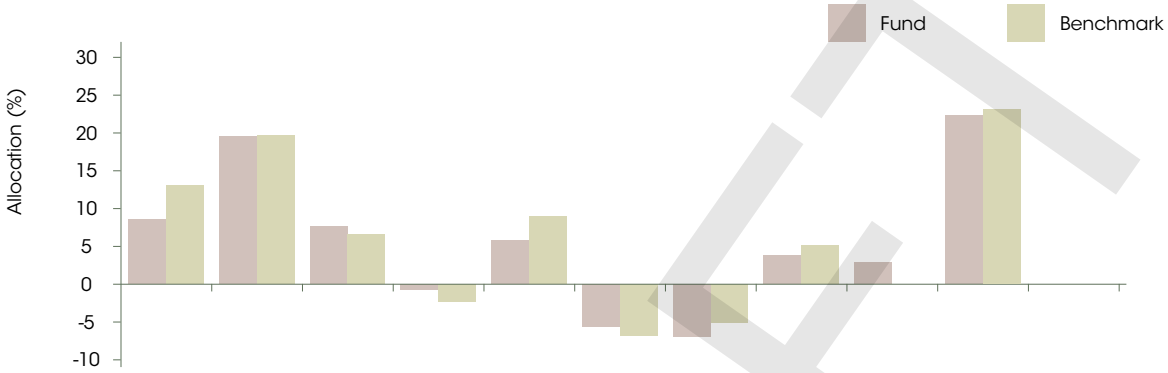
The performance of the Fund against its benchmark for 1, 3, and 5 year periods is shown in Table 1 below:

	1 Year	3 Year (Annualised)	5 Year (Annualised)
Merseyside Pension Fund	10.40%	7.60%	6.42%
Benchmark	6.88%	5.71%	4.98%
Relative Return	3.29%	1.78%	1.37%

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

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

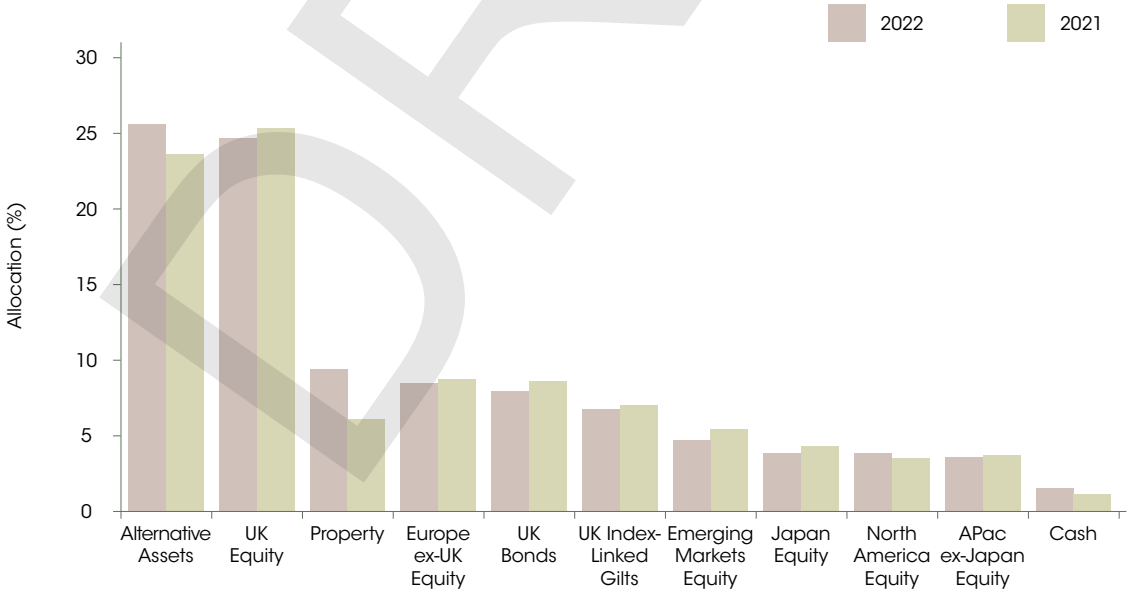


	UK Equity	North America Equity	Europe ex-UK Equity	Japan Equity	APac ex-Japan Equity	Emerging Market Equity	UK Bonds	UK Index-Linked Gilts	Alternative Assets	Property	Cash
Fund	8.47	19.44	7.65	-0.70	5.70	-5.59	-6.98	3.79	2.85	22.34	0
Benchmark	13.03	19.68	6.51	-2.32	8.90	-6.82	-5.07	5.11	0	23.14	0

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

Figure 2 illustrates the asset allocation of the Fund on 31 March 2022 compared to 31 March 2021.

Figure 2.
Asset Allocation Changes



	Alternative Assets	UK Equity	Property	Europe ex-UK Equity	UK Bonds	UK Index-Linked Gilts	Emerging Markets Equity	Japan Equity	North America Equity	APac ex-Japan Equity	Cash
2022	25.57	24.65	9.35	8.43	7.91	6.73	4.69	3.84	3.80	3.55	1.49
2021	23.61	25.31	8.80	8.68	8.61	6.96	5.38	4.30	3.46	3.69	1.11

(Source - Northern Trust; GBP-adjusted)

In aggregate, alternative assets returned 20.85% over the financial year. Positive contribution to return came from all asset classes, namely Infrastructure (11.46%), Opportunistic Credit (8.10%), Private Equity (51.41%) and Other Alternatives (2.15%).

Largest UK Property Holdings as at 31 March 2022

Asset	Sector/Focus	Value £'m	Direct Property Portfolio %
Fort Halstead	Commercial (Other)	69.00	12.14
Mitre Bridge	Industrial	50.00	8.70
Lever Building	Office	40.70	7.16
Shepherds Spring Lane	Hotel	40.65	7.15
Gateway 28	Industrial	37.10	6.53
Total		**237.45**	**41.68**

(Source - CBRE)

Largest Infrastructure Holdings on committed capital basis as at 31 March 2022

Asset	Sector/Focus	Value £'m	Infrastructure Portfolio %
Agility Trains East	Transportation	77.00	10.00
Mirova Hydroelectric	Clean Energy	57.00	7.00
Clyde Wind Farm	Renewables	48.00	6.00
Iona Environmental	Biogas Power Plants	47.00	6.00
Invis Energy	Onshore Wind	44.00	6.00
Total		**273.00**	**35.00**

(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 £450m to GLIL platform including a co-investment into a rolling stock asset. Total committed capital to GLIL from its existing investors currently stands at £3.6bn following a successful capital raise of over £1bn in 2022.

The Northern LGPS's collective private equity investment vehicle (NPEP) is continuing to effectively make capital commitments to diverse range of Private Equity Funds. The initial close of NPEP occurred upon its creation in July 2018 with £1.02bn of Funding capacity and stands at £2.29bn as at 31/03/2022.

Merseyside Pension Fund's net value of Private Equity assets currently stands at £956m, of which 20% sits within NPEP. Merseyside Pension Fund's total Private Equity portfolio has performed very strongly with a 51% return over the past 12 months.

Private Equity has come through the COVID-19 pandemic relatively unscathed with growing valuations, record amounts of capital raised and an abundance of deal flow activity. Merseyside Pension Fund's Private Equity performance over the past 12 months can partly be attributed to its US venture and global technology exposure which has seen exceptional rises in asset values which Merseyside Pension Fund have been well positioned to benefit from. However, despite recent outperformance, officers expect such outperformance to abate considerably against the backdrop of raising inflation, interest rates and macro-economic sentiment.

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

Asset Class	31 March 2021 Management Fee £'000	31 March 2021 Performance Related Fee £'000	31 March 2022 Management Fee £'000	31 March 2022 Performance Related Fee £'000
Private Equity	8,381	2,961	8,198	7,677
Infrastructure	5,144	94	5,314	7,546
Property	4,912	578	7,876	1,040
Opportunistic Credit	9,121	882	3,054	2,188
Other Alternatives	3,225	0	2,835	340
Total	**30,783**	**4,515**	**27,307**	**18,791**

The increase in overall performance fees when comparing 2021 and 2022 is driven by the Private Equity and Infrastructure portfolios. Incentive fees paid and performance have a positive correlation and both Private Equity and Infrastructure portfolios were the two strongest performing asset classes within alternatives. In the financial year, Private Equity had a yearly performance of 51.41% and Infrastructure had a yearly performance of 11.46%. Hence the uptick in performance fees paid to underlying Fund managers. Increase in performance fee in comparison to last year is mainly driven by two infrastructure funds SITE EUR and Antin Infrastructure Fund II, both funds are nearly fully realised and have returned overall 2.6x Gross / 2.0x Net Multiple and 2.2x Gross /2.8x Net Multiple respectively, net multiple being higher than the gross for SITE EUR Fund due to the restructuring which occurred in March 2015 when the fund became a closed ended fund.

Responsible Investment

Merseyside Pension Fund's Responsible Investment Policy continues to impact and integrate sustainability all investment decisions made over the period. MPF is committed to the belief that practising responsible ownership of assets is fundamental to investing responsibly over the long-term. The Fund maintains its signatory status of the Principles of Responsible Investment (PRI) through its last submission. Through this the Fund reports on its Responsible Investment activity across all asset classes held. Our latest submission includes detail on how the Fund strategies responsible investment and implements our policy across internal and external management ESG factors in decision making. Merseyside Pension Fund's most recent available PRI Transparency report can be viewed at: **unpri.org/signatories**

Through the Fund's involvement with the NLGPS, proxy voting is coordinated across listed equity holdings. The securities lending programme during proxy voting season is restricted as part of the Northern Pool's RI Policy to ensure vote maximisation. Through this, Funds also must disclose their voting intentions. Public reporting on voting can be accessed via the Northern LGPS website.

In line with MPF's Responsible Investment Policy, votes on all eligible listed shareholdings are cast through corporate governance specialists PIRC. Votes are cast aligned with PIRC's recommendations covered by their Shareholder Voting Guidelines. Through the implementation of MPF's RI Policy, votes are cast in support of the Say on Climate initiative and Climate Action 100+, behind which MPF is a member.

The Fund remains an active long-standing member of the Local Authority Pension Fund Forum (LAPFF), which conducts various engagements on behalf of the Fund, with support from officers. LAPFF are well placed to apply collective pressure on companies and shape market behaviours and regulations. Their 2021 annual report outlines that LAPFF have engaged in 171 domiciles across 31 countries with operations spread across the globe. An example of this includes work as part of LAPFF's commitment to the Say on Climate initiative in 2020 and as part of the Climate Action 100+ initiative, the forum engaged with several companies to act upon these initiatives. Companies included Shell, BHP, Ford, General Motors and SSE on topics surrounding their alignment with the Paris Accord and the mitigation of climate risk. Over the period, LAPFF focused on several other issues that included employee welfare during the COVID-19 pandemic, and significant work on the just transition through an inquiry led under the auspices of the LGPS APPG. Further information can be found in the LAPFF Annual Report.

MPF continues to publish a report covering The Taskforce on Climate-Related Financial Disclosures (TCFD), which provides a global framework to translate non-financial information into financial metrics. As regulation within the industry progresses, MPF is committed to improving upon the alignment to the framework and increasing disclosure standards with ongoing developments. 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)*.

Governance

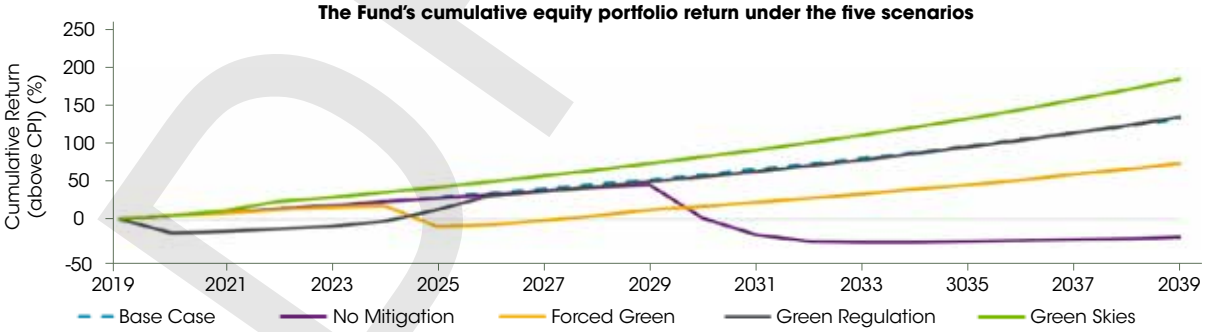
As the Fund's governing body, the Pensions Committee had mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance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

Strategy

MPF's strategy encompasses 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 that involved reviewing its investment beliefs and strategic framework to ensure that climate risk considerations are appropriately integrated at each stage of investment management.

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. The chart guides the Fund's net zero plans over the short and longer term. Under Aon's No Mitigation scenario (+4 degrees of warming), the severity of the risk was starkly illustrated:

The Fund's cumulative equity portfolio return under the five scenarios



(Source - Aon/MSCI)

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

The trials facing the Fund and wider industry to report on TCFD verified metrics is a widely known challenge. The Fund continues to develop and invest in this area to demonstrate our strategy under reputable metrics in the coming year.

MPF has committed in conjunction with the NLGPS to Net Zero by 2030 using the PAII Framework. The commitment states by 2030, the weighted average carbon intensity of Funds to be 50% below the carbon intensity of the respective 2019 benchmark. This will be achieved adopting scenarios used by some of the main external Asset Managers to the Northern LGPS, which are the P2 emission pathway of the IPCC special report on global warming of 1.5 degrees Celsius, and the IPCC RCP 2.6 and IEA SDS (aggressive mitigation) pathways.

Through other investments in the illiquid segment of the strategic benchmark the Fund continues to allocate to the low carbon economy and climate change risk mitigators. The Fund, in part, achieves this through the infrastructure allocation, which has considerable proportion invested in renewable energy and climate solutions. The Fund's infrastructure allocation is 7%.

Climate stewardship

MPF continues to be an active member of Climate 100+, which lobbies and engages with companies to secure commitments to setting net zero targets and developing decarbonising strategies. MPF continues this work internally, through co-filings of shareholder resolutions with a focus on European banking. Following the filings over the period, MPF engaged directly with banks through negotiations that aimed to increase pressure to reduce exposure to fossil fuels and publish emission reduction targets for its 'Oil & Gas' and 'Power & Utilities' portfolios. MPF as part of the co-filing group negotiated successfully with HSBC specifically to update the scope of their fossil fuel targets to cover capital markets activities by Q4 2022. The Fund continues to engage with the bank to ensure positive progress is made and commitments are met.

Financial Performance

Key Financials for 2021/22

	£'000	£'000	£'000
Fund Value at 31 March 2021			**10,079,748**
Contributions and Benefits			**40,267**
Employer Contributions	137,770		
Employee Contributions	63,390		
		201,160	
Pensions Paid	(299,729)		
Lump Sums Paid	(72,214)		
		(371,943)	
Net Transfers		211,050	
Management Expenses			**(47,128)**
Administration	(3,267)		
Investment Management	(41,829)		
Oversight and Governance	(2,204)		
		(47,300)	
Other Income		172	
Investments			**928,011**
Income	324,682		
Change in Market Value	603,329		
Fund Value at 31 March 2022			**11,000,898**

The table below describes the Fund's performance for key financial variables against forecasts (forecast March and June 2021) for the 12 months to 31 March 2022.

2021/2022 or at 31 March 2022	Predicted £'000	Actual £'000
Fund Size 2021	**10,079,748**	**10,079,748**
Fund Size 2022	**10,349,572**	**11,000,898**
Pensions Paid	(352,394)	(371,943)
Contributions Received	160,800	201,160
Net Transfers	-	211,050
Net Cash Flow From Members	**(191,594)**	**40,267**
Net Management Expenses	**(42,569)**	**(47,128)**
Investment Income	199,830	324,682
Change in Valuation of Assets	304,157	603,329
Return from Investments	**+503,987**	**+928,011**
Net Change Overall	**+269,824**	**+921,150**

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 2021/22 are lower than reported in the previous year, due to several employers paying additional and upfront contributions in 2020/21, covering a three-year period, until the next actuarial valuation in 2022, consequently the following two years are reduced accordingly.

The Fund seeks to minimise and recover, where appropriate, any overpayments made to members and the Fund has a formal 'Overpayment of Pensions Policy' which outlines the procedure for pension overpayments and recovery actions. Where it is not possible to offset an overpayment from an ongoing pension or that of a surviving dependant, an invoice will be raised to recover any gross amount exceeding £250.

Within the reporting period invoices amounting to £229,764 were raised with £150,686 paid in period. Invoices amounting to £3,190 were written off following instruction from the corporate legal department on the basis that the debts were not economically viable to recover. An amount of £75,887 remains outstanding at the end of the reporting period.

The Fund has in place a mortality screening contract to limit the amount overpayment to pensioners in the event of death and participates in the National Fraud initiative which is conducted every two years.

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 2022	Budget £'000	Actual £'000
Employees (based on 84 FTE)	3,843	3,436
Premises	206	206
Transport	19	2
Investment Fees - operating budget	17,356	17,542
Supplies and Services	2,625	1,770
Third Party	1,125	1,499
Recharges	360	331
Total	**25,534**	**24,786**

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 2021/22 was £24.8 million, lower than the original budget of £25.5 million approved by Pensions Committee March/June 2021, this is largely due to budgeted projects and areas of work being deferred to 2022/23 due to the pandemic.

The 2022/23 Fund budget as approved by Pensions Committee in March and June 2022 is detailed in the table below.

	2022/23 £'000
Employees (based on 84 FTE)	4,084
Premises	207
Transport	36
Investment Fees - operating budget	16,466
Supplies and Services	2,640
Third Party	1,303
Recharges	311
Total	**25,048**

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 2022/23 at £25.0m reflects lower investment management fees being forecast.

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Fund Size Start of Year	**11,000,898**	**11,303,443**	**11,668,531**
Fund Size End of Year	**11,303,443**	**11,668,531**	**12,042,955**
Contributions Received	186,315	248,881	256,347
Pensions Paid	(383,473)	(395,361)	(407,617)
Net Transfers	-	-	-
Net Inflow From Members	**(197,158)**	**(146,480)**	**(151,270)**
Net Management Expenses	**(50,347)**	**(53,604)**	**(57,732)**
Investment Income	347,085	371,034	396,635
Change in Valuation of Assets	202,960	194,138	186,791
Return from Investments	**550,045**	**565,172**	**583,426**
Net Change Overall	**302,545**	**365,088**	**374,424**

As stated earlier, the contributions received in 2020/21 were higher due to several employers paying additional and upfront payments covering a three-year period in year 1, consequently, year 3 (2022/23) has been reduced accordingly. The 2022 triennial valuation is ongoing, and the results of that process will determine the employer contribution requirements from 2023/24, no upfront payments have been assumed in the above table, however, upfront payments may be paid by several employers in 2023/24.

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 factors are largely outside the influence of Merseyside Pension Fund.

Financial Statements

Fund Account - for year ended 31 March 2022

2020/21 £'000		Note	2021/22 £'000
	Dealing with Members, Employers and Others Directly Involved in the Fund		
337,417	Contributions Receivable	7	201,160
15,214	Transfers In	8	225,296
352,631			**426,456**
(350,641)	Benefits Payable	9	(371,943)
(16,874)	Payments to and on Account of Leavers	10	(14,246)
(367,515)			**(386,189)**
(14,884)	**Net Additions/(Withdrawals) from Dealing with Members**		**40,267**
(39,790)	Management Expenses	11	(47,128)
(54,674)	**Net Additions/(Withdrawals) including Fund Management Expenses**		**(6,861)**
	Return on Investments:		
191,236	Investment Income		329,589
1,308,738	Profit and Losses on Disposal of Investments and Change in Market Value of Investments		603,329
(4,304)	Taxes on Income		(4,907)
1,495,670	**Net Return on Investments**		**928,011**
1,440,996	Net Increase/(Decrease) in the Fund During the Year		921,150
8,638,752	Net Assets of the Fund at the Start of the Year		10,079,748
10,079,748	**Net Assets of the Fund at the End of the Year**		**11,000,898**

Net Assets Statement - for year ended 31 March 2022

2020/21 £'000		Note	2021/22 £'000
	Investment Assets	13	
3,213,642	Equities		3,360,827
696,000	Bonds		731,666
5,393,027	Pooled Investment Vehicles		5,817,473
403,815	Derivative Contracts		382,521
463,725	Direct Property		568,275
78,110	Loans		35,751
125,018	Short-Term Cash Deposits		169,149
144,548	Other Investment Balances		106,941
10,517,885			**11,172,603**
(465,355)	**Investment Liabilities**	14	**(400,793)**
10,052,530	**Total Net Investment Assets**		**10,771,810**
3,337	Long-Term Assets	19	6,394
40,433	Current Assets	20	245,138
(16,552)	Current Liabilities	20	(22,444)
10,079,748	**Net Assets of the Fund as at 31 March**		**11,000,898**

Notes to the Accounts

1. Description of the 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 2021/22 included eleven 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's Annual Report 2021/22 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 214 employer organisations within Merseyside Pension Fund including Wirral Council itself. The Fund has 144,547 members as detailed below:

31/3/21		31/3/22
212	Number of Employers with Active Members	**214**
47,193	Number of Employees in Scheme	46,740
47,032	Number of Pensioners	48,609
6,503	Number of Dependants	6,645
39,295	Number of Deferred Pensioners	42,553
140,023	**Total Scheme Members**	**144,547**

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 with employer contributions set to achieve the funding target for each individual employer as detailed within the Valuation Rates and Adjustment Certificate.

d. Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. 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 adjusted 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 2021/22 financial year and its position at year end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 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.

For 2020/21 reporting, Note 24 Additional Voluntary Contributions (AVCs), the information was not available for Prudential at the time the Statement of Accounts were approved, this information is now available and has now been included, this has had no impact on the Fund Account or the Net Asset Statement.

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, was due to be adopted by the Code for accounting periods commencing on or after 1 April 2022, however, a decision by CIPFA is to defer the implementation of IFRS until 1 April 2024. 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.

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 operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income and recognised over the term of the lease. Property expenditure is deducted from rental income to report net income from properties.

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 2022 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 2022 together, where applicable, with the UK National Supplement effective 14 January 2019, together the 'Red Book'.

- 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

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 2022 was £5,391 million (£4,745 million at 31 March 2021).

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.

Infrastructure and other alternative assets are valued in accordance with accounting standards, however, the valuation basis includes a degree of estimation.

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 2021/22 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 and the impact of the conflict in Ukraine. There is an increased level of risk that the estimated valuations may be misstated. The valuations have been updated based upon the available information as at 31 March 2022 and maybe subject to variations as further information becomes available. Note 15 sets out a sensitivity analysis of such assets valued at level 3 (the remaining unquoted assets are classified as level 2 assets).

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 2022, 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 2022. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2021/22 contributions above were calculated at the valuation dated 31 March 2019. The 2019 actuarial valuation calculated the 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 £18.8 million (in 2020/21 £94.7 million).

'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 2021/22 the Fund has received additional and upfront payments covering a three-year period until the next actuarial valuation in 2022, totaling £nil, (in 2020/21 £3.1 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2021/22 no such charges were levied.

2020/21 £'000		2021/22 £'000
	Employers	
257,619	Normal	122,986
4,665	Pension Strain	6,721
14,500	Deficit Funding	8,063
276,784	**Total Employers**	**137,770**
	Employees	
60,633	Normal	63,390
337,417		**201,160**
	Relating to:	
27,478	Administering Authority	29,048
282,567	Statutory Bodies	144,178
27,372	Admission Bodies	27,934
337,417		**201,160**

8. Transfers In

2020/21 £'000		2021/22 £'000
-	Group Transfers	205,761
15,214	Individual Transfers	19,535
15,214		**225,296**

There was a group transfer into the Fund during 2021/22. An employer sought permission from the Secretary of State to transfer the administration of its pension obligations under the LGPS from one LGPS Fund to MPF, this resulted in a transfer of assets, liabilities and members (actives, deferreds and pensioners) to MPF.

9. Benefits Payable

2020/21 £'000		2021/22 £'000
287,859	Pensions	299,729
55,869	Lump Sum Retiring Allowances	63,287
6,913	Lump Sum Death Benefits	8,927
350,641		**371,943**
	Relating to:	
47,540	Administering Authority	50,115
247,375	Statutory Bodies	258,258
55,726	Admission Bodies	63,570
350,641		**371,943**

10. Payments to and on Account of Leavers

2020/21 £'000		2021/22 £'000
435	Refunds to Members Leaving Service	421
-	Payment for Members Joining State Scheme	-
(9)	Income for Members from State Scheme	(3)
-	Group Transfers to Other Schemes	-
16,448	Individual Transfers to Other Schemes	13,828
16,874		**14,246**

11. Management Expenses

2020/21 £'000		2021/22 £'000
3,067	Administration Costs	3,267
34,992	Investment Management Costs	41,829
2,019	Oversight and Governance Costs	2,204
(288)	Other Income	(172)
39,790		**47,128**

11a. Administration Costs

2020/21 £'000		2021/22 £'000
2,169	Employee Costs	2,245
643	IT Costs	785
216	General Costs	192
39	Other Costs	45
3,067		**3,267**

11b. Investment Management Costs

2021/22	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	15,729	7,398	4,574	-	-	3,757
Bonds	100	100	-	-	-	-
Pooled Investment Vehicles	23,321	3,515	1,181	6,661	11,964	-
Derivative Contracts	227	774	-	-	-	(547)
Loans	785	-	-	785	-	-
Short-Term Cash Deposits	-	-	-	-	-	-
Other Investment Balances	-	-	-	-	-	-
		11,787	**5,755**	**7,446**	**11,964**	**3,210**
External Services	665					
Internal Investment Management Fees	1,002					
	41,829					

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					

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 2021/22 is £122,060 relating to recharged Actuarial fees (2020/21 £230,382).

The estimated External Audit fee for 2021/22 is £48,000, an additional £20,000 relates to services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies. An audit fee rebate was received during 2021/22 for £20,060.

2020/21 £'000		2021/22 £'000
534	Employee Costs	586
1,162	External Services	1,277
49	Internal Audit	49
58	External Audit	48
216	Other Costs	244
2,019		**2,204**

12. Investment Income

Rental income is shown net of any property related expenses.

Interest on loans has been accrued up to 31 March 2022.

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £11.1 million (2020/21 £8.1 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 2021/22 £3.5 million (2020/21 £2.6 million).

2020/21 £'000		2021/22 £'000
77,984	Dividends from Equities	108,655
3,965	Income from Bonds	3,301
50,385	Income from Pooled Investment Vehicles	73,089
25,464	Net Rents from Properties	27,024
202	Interest on Short-term Cash Deposits	76
24,509	Income from Private Equity	101,489
6,981	Interest from Loans	14,784
1,746	Other	1,171
191,236		**329,589**
(4,304)	Irrecoverable Withholding Tax	(4,907)
186,932		**324,682**

12a. Property Income

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 2022 (£7.5 million) and assessed that a credit loss provision to the value of £1.7 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.

2020/21 £'000		2021/22 £'000
33,138	Rental Income	32,405
(7,674)	Direct Operating Expenses	(5,382)
25,464	**Net Rent from Properties**	**27,023**

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:

2020/21 £'000	Age Profile of Lease Income	2021/22 £'000
3,345	No later than one year	2,001
5,327	Between one and five years	10,713
16,490	Later than five years	15,406
25,162	**Total**	**28,120**

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

2021/22	Market Value 31/3/21 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value 31/3/22 £'000
Equities	3,213,642	1,222,238	(1,202,126)	127,073	3,360,827
Bonds	696,000	26,786	(23,670)	32,550	731,666
Pooled Investment Vehicles	5,393,027	599,023	(528,332)	353,755	5,817,473
Direct Property	463,725	42,872	(37,435)	99,113	568,275
Loans	78,110	32,643	(75,002)	-	35,751
	9,844,504	**1,923,562**	**(1,866,565)**	**612,491**	**10,513,992**
Derivative Contracts:					
FX	-	593,193	(596,435)	2,886	(356)
Options	(32,471)	610,390	(584,592)	(1,722)	(8,395)
Swaps	(6,201)	37,904	(20,699)	(11,004)	-
	9,805,832	**3,165,049**	**(3,068,291)**	**602,651**	**10,505,241**
Short-Term Cash Deposits	125,018				169,149
Other Investment Balances	144,548			678	106,941
Amounts due to Stockbrokers	(22,868)				(9,521)
	10,052,530			**603,329**	**10,771,810**

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**

** 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

2020/21 £'000		2021/22 £'000
	Equities (Segregated Holdings)	
1,336,937	UK Quoted	1,389,501
1,876,705	Overseas Quoted	1,971,326
3,213,642		**3,360,827**
	Bonds	
695,600	UK Public Sector Quoted	731,266
400	UK Corporate Quoted	400
-	Overseas Corporate Quoted	-
696,000		**731,666**
	Pooled Investment Vehicles	
	UK Managed Funds:	
117,664	Equities	94,800
196,808	Private Equity	299,250
180,197	Hedge Funds	192,373
407,569	Corporate Bonds	379,513
359,855	Infrastructure	490,717
315,882	Opportunities	311,049
	Overseas Managed Funds:	
722,853	Equities	662,586
633,688	Private Equity	654,211
112,532	Hedge Funds	120,411
84,315	Corporate Bonds	83,187
250,699	Infrastructure	272,893
97,171	Opportunities	129,229
	UK Unit Trusts:	
106,888	Property	138,590
	Overseas Unit Trusts:	
217,324	Property	254,905
1,589,582	**Other Unitised Funds**	1,733,579
5,393,027		**5,817,473**
	Derivative Contracts	
-	FX	895
402,967	Options	381,626
848	Swaps	-
403,815		**382,521**
	UK Properties	
348,425	Freehold	440,050
115,300	Leasehold	128,225
463,725		**568,275**
471,925	Balance at 1 April	463,725
41,061	Additions	42,872
(16,463)	Disposals	(37,435)
3,621	Net Gain/(Loss) on Fair Value	(14,912)
(36,419)	Other Changes in Fair Value	114,025
463,725	**Balance at 31 March**	**568,275**

2020/21 £'000		2021/22 £'000
78,110	**Loans**	**35,751**
125,018	**Short-Term Cash Deposits**	**169,149**
	Other Investment Balances	
7,481	Outstanding Trades	3,524
20,630	Outstanding Dividend Entitlements and Recoverable Withholding Tax	26,159
116,437	Cash Deposits	77,258
144,548		**106,941**
10,517,885	**Total Investments**	**11,172,603**

As at 31 March 2022 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	AUD 1,010	GBP 577	-	-
Up to one month	GBP 440	AUD 767	2	-
Up to one month	EUR 100,000	GBP 83,640	893	-
Up to one month	GBP 83,554	EUR 100,000	-	(980)
Up to six months	GBP 18,834	EUR 22,575	-	(271)
			895	**(1,251)**
Net Forward Currency Contracts at 31 March 2022				**(356)**
Prior Year Comparative				
Open Forward Currency Contracts at 31 March 2021			-	-
Net Forward Currency Contracts at 31 March 2021				**-**

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 2021/22 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 31/3/22 £'000
Assets				
Overseas equity purchased	Over three months	Put	361	**106,568**
Overseas equity purchased	Over three months	Call	706	**275,058**
Total Assets				**381,626**
Liabilities				
Overseas equity written	Over three months	Put	(440)	**(56,121)**
Overseas equity written	Over three months	Call	(361)	**(333,899)**
Total Liabilities				**(390,020)**
Net Purchased/Written Options				**(8,394)**

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	-	**-**
Overseas equity written	Over 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)**

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.

There were no swaps as at 31 March 2022.

Type	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)**

As at 31 March 2022, the Fund held cash and non-cash collateral of £2.3 million to mitigate the risk of loss and credit risk. As the Fund has an obligation to return the collateral, it is excluded from the Fund valuation.

13c. Summary of Managers' Portfolio Values at 31 March 2022

2020/21 £'m	2020/21 %		2021/22 £'m	2021/22 %
		Externally Managed		
301	3.0	JP Morgan (European Equities)	318	2.9
422	4.2	Nomura (Japan)	409	3.8
408	4.1	Schroders (Fixed Income)	380	3.5
447	4.4	Legal & General (Fixed Income)	473	4.4
237	2.4	Unigestion (European Equities)	248	2.3
216	2.1	M&G (Global Emerging Markets)	220	2.0
298	3.0	TT International (UK Equities)	315	2.9
306	3.0	Blackrock (UK Equities)	320	3.0
306	3.0	Newton (UK Equities)	311	2.9
255	2.5	Amundi (Global Emerging Markets)	226	2.1
183	1.8	Maple-Brown Abbot (Pacific Rim Equities)	201	1.9
1,146	11.4	State Street Global Advisor (Passive Manager)	1,271	11.8
703	7.0	State Street Global Advisor (Bonds Manager)	727	6.7
5,228	**51.9**		**5,419**	**50.2**
		Internally Managed		
615	6.1	UK Equities	628	5.8
316	3.1	European Equities	333	3.1
181	1.8	Asia Pacific ex Japan	180	1.7
464	4.6	Property (Direct)	568	5.3
413	4.1	Property (Indirect)	439	4.1
831	8.4	Private Equity	956	8.9
439	4.4	Hedge Funds	427	4.0
647	6.4	Infrastructure	791	7.3
550	5.5	Opportunities	577	5.4
239	2.4	Global Equities Internal Factor	273	2.5
130	1.3	Short Term Deposits & Other Investments	181	1.7
4,825	**48.1**		**5,353**	**49.8**
10,053	**100.0**	**Total**	**10,772**	**100.0**

The following holdings each represent more than 5% of the net assets of the Fund:

2020/21 %	2020/21 £'000		2021/22 £'000	2021/22 %
5.4	547	State Street Pooled UK Index Linked Gilts	628	**5.8**
	547	**Total**	**628**	

13d. Stock Lending

As at 31 March 2022, £172.8 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totaling £185.7 million. Collateral is marked to market and adjusted daily. Income from Stock Lending amounted to £1.2 million 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

2020/21 £'000		2021/22 £'000
442,487	Derivative Contracts	391,272
22,868	Amounts Due to Stockbrokers	9,521
465,355	**Total**	**400,793**

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	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Level 1			
Quoted Equities and Pooled Investment Vehicles	Published bid market price ruling on the final day of the accounting period.	Not Required	Not Required
Quoted Fixed Income Bonds and Unit Trusts	Published bid market price ruling on the final day of the accounting period.	Not Required	Not Required
Derivatives - Futures and Options	Published exchange prices at year end.	Not Required	Not Required
Loans	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	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	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	Carrying Value is deemed to be fair value because of the short-term nature of these financial instruments.	Not Required	Not Required
Level 2			
Unquoted Equities Investments	Average of broker prices.	Evaluated price feeds	Not required
Unquoted Fixed Income Bonds and Unit Trusts	Average of broker prices.	Evaluated price feeds	Not required
Unquoted Pooled Fund Investments	Average of broker prices.	Evaluated price feeds	Not required
Derivatives - Forward Currency Contracts	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
Derivatives - OTC Options and OTC Swaps	Option pricing models and Swaps pricing models.	Not required	Not required
Pooled Property Funds and Hedge Funds where regular trading takes place	NAV - based pricing set on a forward pricing basis. 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

15. Fair Value - Basis of Valuation (Continued)

Description of Asset	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Level 3			
Pooled Property Funds where regular trading does not take place	NAV - based pricing set on a forward pricing basis. 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.	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.
Hedge Funds where regular trading does not take place	NAV - based pricing set on a forward pricing basis. 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	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, including Infrastructure and Private Equities	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 2022 and 31 March 2021. 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.

Level 3 Assets	Value at 31/3/22 £'000	Potential Variance %	Value on Increase £'000	Value on Decrease £'000
Property	746,341	10.0	820,975	671,707
Unquoted UK Equity	93,680	15.0	107,732	79,628
Unquoted Overseas Equity	12,292	15.0	14,136	10,448
Hedge Funds	207,896	10.0	228,686	187,106
Infrastructure	775,522	15.0	891,850	659,194
Private Equity	1,615,762	15.0	1,858,126	1,373,398
Total	**3,451,493**			

Level 3 Assets	Value at 31/3/21 £'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**			

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 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment Assets				
Equities	3,298,587	214	62,026	3,360,827
Bonds	731,266	400	-	731,666
Pooled Investment Vehicles	1,048,861	1,947,420	2,821,192	5,817,473
Derivative Contracts	-	382,521	-	382,521
Direct Property	-	-	568,275	568,275
Loans	35,751	-	-	35,751
Short Term Cash Deposits	169,149	-	-	169,149
Other Investment Balances	106,941	-	-	106,941
Total Investment Assets	**5,390,555**	**2,330,555**	**3,451,493**	**11,172,603**
Investment Liabilities				
Amounts due to stockbrokers	(9,521)	-	-	(9,521)
Derivative Contracts	-	(391,272)	-	(391,272)
Total Investment Liabilities	**(9,521)**	**(391,272)**	**-**	**(400,793)**
Net Investment Assets	**5,381,034**	**1,939,283**	**3,451,493**	**10,771,810**

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**

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

2020/21 £'000		2021/22 £'000
2,533,544	**Opening Balance**	**2,998,801**
709,823	Acquisitions	467,662
(389,073)	Disposal Proceeds	(353,783)
15,191	Transfer into/(out) Level 3*	(3,075)
	Total Gains/(Losses) Included in the Fund Account:	
75,540	On Assets Sold	108,690
53,776	On Assets Held at Year End	233,198
2,998,801	**Closing Balance**	**3,451,493**

** An asset transferred from level 3 to level 1 in 2021/22, due to the asset being a listed equity.*

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.

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

31 March 2022	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000	Total £'000
Financial Assets				
Equities	-	-	3,360,827	3,360,827
Bonds	-	-	731,666	731,666
Pooled Investment Vehicles	-	-	5,817,473	5,817,473
Derivatives	-	-	382,521	382,521
Loans	35,751	-	-	35,751
Cash Deposits	169,149	-	-	169,149
Other Investment Balances	106,941	-	-	106,941
Long-Term and Current Assets	251,532	-	-	251,532
Total Financial Assets	**563,373**	**-**	**10,292,487**	**10,855,860**
Financial Liabilities				
Derivatives	-	-	(391,272)	(391,272)
Other Investment Balances	-	(9,521)	-	(9,521)
Current Liabilities	-	(22,444)	-	(22,444)
Total Financial Liabilities	**-**	**(31,965)**	**(391,272)**	**(423,237)**
Total Net Assets	**563,373**	**(31,965)**	**9,901,215**	**10,432,623**

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)**	**9,263,997**	**9,616,023**

16b. Net Gains and Losses on Financial Instruments

2020/21 £'000		2021/22 £'000
	Financial Assets	
1,542,733	Fair Value Through Profit and Loss	516,264
-	Amortised Cost - realised gains on derecognition of assets	678
1,542,733	**Total Financial Assets**	**516,942**
	Financial Liabilities	
(192,166)	Fair Value Through Profit and Loss	(12,726)
(9,031)	Amortised Cost - realised losses on derecognition of assets	-
(201,197)	**Total Financial Liabilities**	**(12,726)**
1,341,536	**Net gains and losses on Financial Instruments**	**504,216**

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 Investment Consultant's volatility estimates are calculated using the Aon's Capital Market Assumptions (asset class return, volatility, and correlation assumptions). The assumptions represent the long-term capital market outlook (i.e. 10 years) based on data at 31 March 2022. The long-term assumptions are based on historical results, current market characteristics, professional judgement, and forward-looking expectations.

31 March 2022	Value £'m	Potential Variance %	Value on Increase £'m	Value on Decrease £'m
UK Equities (all Equities including Pooled Vehicles)	1,660	19.0	1,976	1,345
US Equities	605	19.6	724	486
Canadian Equities	11	24.1	13	8
European Equities	986	22.6	1,209	764
Japanese Equities	420	20.4	505	334
Emerging Markets Equities including Pacific Rim	898	25.1	1,124	673
Global Equities (all Equities including Pooled Vehicles)	810	19.0	964	656
UK Fixed Income Pooled Vehicles	926	8.6	1,005	846
UK Index-Linked Gilts	731	7.1	783	679
Pooled Property	393	12.5	443	344
Private Equity	953	28.3	1,223	684
Hedge Funds	313	9.3	342	284
Infrastructure	764	18.7	906	621
Other Alternative Assets	440	8.1	476	405
Loans, Short-Term Deposits and Other Investment Balances	523	-	523	523
Total	**10,433**			

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
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**			

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.

Interest rate risk is considered in relation to liabilities as well as assets and therefore through the funding level. This is documented in reports to the IMWP and in the accounts through the actuary's report. MPF 's foreign currency exposure is principally through equities and other long-term assets. This risk is considered as being part of overall market risk and complicated by the effects of correlations and possible offset through diversification and, consequently, has not been disaggregated or reported as a discrete figure.

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 2022, was £169.4 million (31 March 2021 £125.0 million). This was held on instant access accounts with the following institutions:

Balances as at 31 March 2021 £'000		Rating S&P	Balances as at 31 March 2022 £'000
42,053	Lloyds Bank	Long A+ Short A-1	40,996
72,965	Northern Trust	AAAm	73,153
10,000	Invesco	AAAm	15,000
-	Federated	AAAm	20,000
-	Santander	Long A Short A-1	20,000
125,018	**Total**		**169,149**

Cash held by Investment Managers, shown in other investment balances, is excluded from the above table, this cash is held for reinvestment in the asset class they are mandated to manage.

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 2022 of £169 million. The Fund has £7,117 million in assets which could be realised in under 7 days' notice, £1,016 million in assets which could be realised in under 90 days' notice and £2,301 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. The Fund has a net addition for 2021/22 in its dealing with members of £40 million and management expenses of £47 million, this net withdrawal overall, is offset by investment income of £330 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.

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

2020/21 £'000		2021/22 £'000
3,337	Assets due in more than one year	6,394
3,337		**6,394**

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

20. Current Assets and Liabilities

2020/21 £'000		2021/22 £'000
	Assets	
14,335	Contributions Due	16,772
-	Amounts Due from External Managers	710
5,385	Accrued and Outstanding Investment Income	1,776
-	Transfer Values Receivable	205,761
22,035	Sundry Debtors	22,039
(1,769)	Provision for Credit Losses	(1,920)
447	Cash at Bank	-
40,433		**245,138**
	Liabilities	
4,920	Retirement Grants Due	6,011
447	Provisions	-
11,185	Sundry Creditors	16,433
16,552		**22,444**
23,881	**Net Current Assets**	**222,694**

'Sundry debtors' 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 2022.

The main components of 'Sundry Creditors' 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 £923 million as at 31 March 2022 (2020/21 £1,016 million). These commitments relate to Private Equity £508.56 million, Infrastructure £96.60 million, Opportunistic Credit £115.87 million, Indirect Property £190.42 million and Other Alternatives £11.77 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 Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

23. Related Party Transactions

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

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £4.0 million, (2020/21 £3.9 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 £7.5 million (2020/21 £6.6 million) and a creditor of £0.9 million as at 31 March 2022 (2020/21 £1.1 million).

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 2022 payroll are included within the debtors figure in note 20.

A specific declaration has been received from Pension Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as 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 Liverpool Hope University. 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 Committee and Pension Board Members formally considers conflicts of interest at each meeting.

23a. Key Management Personnel

The Fund's senior management during 2021/22 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 2021/22 was £495,615 (2020/21 £473,338). In addition, employer contributions of £83,899 (2020/21 £80,601) 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:

Officer Name	Position at MPF	Company	MPF Value as at 31/3/22 £'m
Peter Wallach	Director of Pensions	GLIL	302.8
There were no new commitments to GLIL during 2021/22, the contingent liability as at 31 March 2022 is £32.4m			
		Northern Pool GP (NO.1) Ltd	186.5
MPF committed an additional £60m to NPEP during 2021/22, the contingent liability as at 31 March 2022 is £361.4m			
Adil Manzoor	Senior Portfolio Manager	Virtus	20.9
MPF committed an additional $5m to Virtus during 2021/22, there is no contingent liability as at 31 March 2022			
Owen Thorne	Portfolio Manager	Technology Enhanced Operations Ltd (TEO)	15.2
There were no new commitments to TEO during 2021/22, there is no contingent liability as at 31 March 2022			
Alan Robertson	Portfolio Manager	GLIL	302.8
There were no new commitments to GLIL during 2021/22, the contingent liability as at 31 March 2022 is £32.4m			

24. Additional Voluntary Contribution Investments

2020/21 £'000		2021/22 £'000
Restated*	**The Aggregate Amount of AVC Investments is as follows:**	
2,007	Utmost Life	1,819
5,374	Standard Life	5,165
11,106	Prudential	11,546
18,487		**18,530**
	Changes During the Year were as follows:	
2,752	Contributions	2,699
2,055	Repayments	3,078
1,414	Change in Market Values	422

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

** For 2020/21 reporting, the information was not available for Prudential at the time the Statement of Accounts were approved, this information is now available and has now been included.*

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 2022.

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 2022, and its income and expenditure for the year then ended.

Shaer Halewood
Section 151 Officer
September 2022

Audit Report

Merseyside Pension Fund's Annual Report and Accounts remains in a draft status whilst we await the approval of the financial statement at Audit & Risk Management Committee (ARMC) and the issue of the audit opinion.

The audit of Merseyside Pension Fund is substantially complete and the Grant Thornton Audit Findings Report was reported and approval at Pensions Committee on 28 September 2022 **(Minute 23 at: Pensions Committee)**.

Grant Thornton anticipate issuing an unqualified opinion.

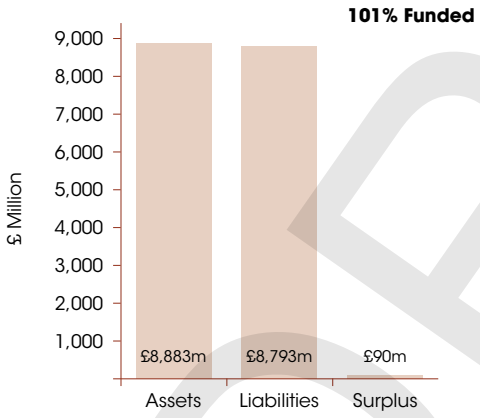
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2022 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 may be appropriate to offset some of 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 the last actuarial valuation the average recovery period adopted was 13 years, and the total initial recovery payment (the 'Secondary rate' for 2020-2023) was 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 was 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 as at the last valuation. 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 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of Funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. 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. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021 per annum	31 March 2022 per annum
Rate of return on investments (discount rate)	2.1%	2.8%
Rate of CPI Inflation / CARE Benefit revaluation	2.7%	3.4%
Rate of pay increases*	4.2%	4.9%
Rate of increases in pensions in payment (in excess of GMP) / Deferred Revaluation	2.8%	3.5%

** 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, but we have used the most recent CMI future improvement tables (CMI 2021). 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 increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.4%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £13,675 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£286million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£288 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also a decrease in liabilities of £73 million due to 'actuarial gains' (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 2022 pension increase award was more 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 2022 is therefore £14,176 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 2022

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

NorthernLGPS

The Collective Asset Pool for Greater Manchester
Merseyside and West Yorkshire Pension Funds

Northern LGPS Pool

Report of the Chair

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 2021/2022 and highlight some key achievements.

It was a great source of pride for pool members that our GLIL direct infrastructure vehicle won the LGPS Investment Strategy of the Year award at the Local Authority Pension Fund Investments Awards 2021. The Local Authority Pension Fund Awards celebrate outstanding achievements among the local government pension scheme community. The judges stated that GLIL 'demonstrated the ability to invest in assets with good ESG credentials, providing sustainable returns for investors and creating value for local communities'. It was noted by the awards that GLIL had led the way with significant UK green energy investments in Flexion Energy, the specialist utility and energy storage infrastructure company, global renewable energy investor Cubico and energy infrastructure provider Smart Meter Assets. GLIL was also lauded for its partnership with Nest, the government-established defined contribution workplace pension provider, a landmark partnership in the infrastructure world.

We unveiled our new Responsible Investment policy in October 2021 which outlines the pool's approach to environmental, social and governance (ESG) matters. ESG is vitally important to the Northern LGPS for many reasons, in particular, achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues reduces risks to the Pool and its beneficiaries. Our approach to responsible investment has been informed by a number of important initiatives. The Northern LGPS fully supports the aims and objectives of the Stewardship Code and member funds are signatories of the Code. Pool members are also signatories of the Principles for Responsible Investment and as such the Pool aspires to harmonise the six responsible investment principles with how it implements its investment beliefs. We have also considered guidance from the Law Commission, Department of Work and Pensions and Ministry of Housing, Communities and Local Government in developing our policy, which I would recommend all stakeholders to read and consider.

It's imperative we remember that our beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore, we expect high standards from those businesses we invest in. Consistent with the Northern LGPS fund's fiduciary duty to their 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 Northern LGPS will seek to invest in a way that is financially and socially beneficial for the North of England.

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. Despite the global economic challenges which will impact us all over the coming months, I am confident 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 £57.8bn as of 31 March 2022, which is invested on behalf of over 850,000 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 £bn
GMPF	29.3
WYPF	17.7
MPF	10.8
Total Assets	**57.8**

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 2022.

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	Total to 31 March 2022 £m
Annual running costs	0	0	0.1	0.16	0.01	0.28
Other service provider fees	0	0.13	0.78	1.17	1.21	3.28
Transition costs	0	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0	0	0.49
Total costs	0.22	0.31	0.97	1.33	1.22	4.05
Investment management fee savings	7.63	12.21	22.24	31.63	41.79	115.49
Service provider savings	0	0	0.06	0.15	0.15	0.36
Total savings	7.63	12.21	22.31	31.77	41.93	115.85
Total savings net of costs	**7.41**	**11.90**	**21.33**	**30.45**	**40.71**	**111.80**

Total costs (including set up, transition and running costs) as at 31 March 2022	**£4.05m**
Total savings, net of costs, as at 31 March 2022	**£111.80m**

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) matters are crucially important to the Pool for a number of reasons. Appropriate consideration of ESG factors is part of the assessment and monitoring of investments in all asset classes and this helps achieve sustainable, long-term financial returns, underpinning the ability for LGPS funds to pay pensions. A detailed focus on ESG issues reduces 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 partner fund's fiduciary duty to their 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.

Members of the Northern LGPS Joint Committee frequently engage with companies the Pool invests in and challenges these companies 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.

GLIL Direct Inrastructure 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 was structured as a limited liability partnership and was 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; which include Nest, one of the UK's biggest Defined Contribution Pension Schemes. Additional commitments made by new and existing members means GLIL now has committed capital of £3.6 billion, of which over £2.4bn is from the Northern LGPS funds. The Net Asset Value of GLIL has increased significantly over the year, with the Northern LGPS funds' share standing at almost £1.8bn.

GLIL currently has 13 investments that include equity stakes in Anglian Water, Clyde Wind Farm, Iona Capital, Rock Rail, Forth Ports, Semperian, Cubico Sustainable Investments, Agility Trains East, Smart Meter Assets, and Flexion Energy.

One of GLIL's more recent transactions, and GLIL's first foray into foreign infrastructure, has seen GLIL acquire a majority investment in Invis Energy's portfolio of 11 operational onshore wind farms that provide around 11% of the Republic of Ireland's installed wind capacity. The portfolio is currently operating 453 MW of installed wind capacity and, in its lifetime, has generated enough electricity to power 350,000 homes and prevented 480,000 tonnes of CO2 emissions per year, compared to non-renewable energy generation.

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. As at 31 March 2022 the Net Asset Value of NPEP stood at £734m.

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.

Other Northern LGPS Investments

Call-offs have been made from the Pool property framework which was established in 2020/21. The framework will deliver efficiencies in the management of property investments and related services, and covers a wide range of services. Pool Collective housing investments are on track to deliver the timely construction of new homes in the North of England, with good returns expected. The Pool remains committed to finance over 10,000 new homes.

Objectives for 2022/23

- Assessing, alongside the partner funds, the recently released consultation on implementing Task Force on Climate-Related Financial Disclosures ('TCFD') in the LGPS.
- Continue to collaborate with Government, other LGPS funds and pools and global benchmarking services to help achieve a consistent approach to measuring costs, savings and ESG metrics across LGPS pools.
- Seek to expand the Pool's local investment activity in line with the objectives for the LGPS set out in the Government's white-paper on 'levelling-up'; and support other LGPS pools and funds in this area where possible.

Appendix A

Scheme employers with active members as at 31 March 2022

Scheduled Bodies (34)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Billinge Chapel End Parish Council	2	1	
Carmel College	386		125
Chief Constable (CC)	11,889		4,631
Cronton Parish Council	3		1
Eccleston Parish Council	5		1
Edsential SLE	229		66
Halewood Town Council	40	(20)	17
Hugh Baird College	844	190	264
Knowsley M.B.C.	3,295		5,435
Knowsley Town Council	36	(19)	10
LCRCA - Liverpool City Region Combined Authority	1,319		735
Liverpool City Council	10,181		14,176
Liverpool John Moores University	6,626		2,843
Liverpool Streetscene Services Ltd	962		284
Maghull Town Council	47		18
Merseyside Fire & Rescue Authority	1,685	(163)	642
Merseyside Passenger Transport Executive (MPTE)	3,848		1,613
Merseyside Waste Disposal Authority	203		81
Office of the Police and Crime Commissioner (OPCCM)	112	31	50
Prescot Town Council	13		7
Rainford Parish Council	13		4
Rainhill Parish Council	3		1
School Improvement Liverpool Ltd	860		370
Sefton M.B.C.	4,478		7,033
Shared Education Services Ltd	403	(219)	117
Southport College	486	(56)	150
St. Helens College	953	(428)	330
St. Helens M.B.C.	22,127		5,516
The ACC Liverpool Group Ltd	576		298
The City of Liverpool College	941	(293)	303
Whiston Town Council	36	(9)	11
Wirral Council	21,675	(1,826)	8,149
Wirral Evolutions Ltd	465		133
Wirral Metropolitan College	878	(78)	279

Scheduled Bodies (Academies) (109)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Academy of St Francis of Assisi	191		70
Alsop High School	276	79	80
Bellerive FCJ Catholic College	130	36	43
Birkdale High School	109	42	35
Birkenhead 6th Form College (Academy)	261	29	110
Birkenhead High School Academy	201	43	67
Bishop Martin CE Primary	30	24	9
Blacklow Brow School (Academy)	51	20	17
Blue Coat School (Academy)	154	57	55
Brackenwood Jr School	44		14
Calday Grange Grammar School	225	17	78
Chesterfield High School	120	49	41
Childwall Sports & Science Academy	137	71	51
Christ Church Moreton Primary (Academy)	63	29	21
Church Drive Primary	89	40	28
Churchtown Primary (Academy)	164	85	47
Co-op Academy Bebington	175		59
Co-op Academy Portland	32	20	11
Co-op Academy Woodslee	60	15	19
Cronton C of E Primary (Academy)	53	21	17
Croxteth Community Primary School (Academy)	76	25	24
De La Salle Academy	71	41	24
Deyes High School	216	102	73
Dixons Broadgreen Academy	17		6
Dixons Fazakerley Academy	47		17
Egremont Primary School (Academy)	67	44	22
Everton Free School	68	3	28
Finch Woods Academy	83	23	26
Formby High School	163	77	53
Garston C of E Primary School (Academy)	57	19	17
Great Meols Primary School (Academy)	83	32	26
Greenbank High School	189	55	64
Halewood Academy Centre for Learning	182	183	57
Halewood C of E Primary (Academy)	46	25	14
Halsnead Primary School (Academy)	81	38	25
Harmonize Academy	62		21
Hawthornes Free School	104	5	31
Heygreen Community Primary (Academy)	75	25	32
Hilbre High School (Academy)	208	104	72

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Hillside High School (Academy)	133	159	42
Holy Trinity CE Primary (Academy)	52	36	15
Hope Academy	188	71	68
Huyton with Roby CE Primary (Academy)	87	42	23
Kew Woods	92	4	26
Kings Leadership Academy (Liverpool)	108	26	37
Kirkby High School	208	142	71
Knowsley Lane Primary School (Academy)	42	35	14
LDST - Liverpool Diocesan Schools Trust (Academy)	39	6	29
Litherland High School (Academy)	131	105	48
Litherland Moss Primary (Academy)	50	22	16
Liverpool College (Academy)	149	2	54
Liverpool Life Science UTC	70		30
Lord Derby Academy	194	97	68
Maghull High School	131	53	43
New Park Primary (Academy)	170	102	66
North Liverpool Academy	358	36	142
Nutgrove Methodist Aided Primary	37	16	12
Oldershaw Academy	252		79
Our Lady of Pity (Academy)	91	30	25
Parish CE Primary (Academy)	57	23	21
Park View Academy	76	41	25
Poulton Lancelyn Primary School (Academy)	70	24	21
Prenton High School for Girls	140		48
Rainford CE Primary School	52	(6)	16
Rainford High School (Academy)	198	75	74
Rainhill High School	189	99	74
Rainhill St Ann's CE Primary School (Academy)	84	34	24
Range High School	189	74	63
Roscoe Primary (Academy)	72	41	22
Shoreside Primary School	56	16	15
St Andrews CE Primary (Academy)	57	23	16
St Anselm's College	108	9	36
St Edmund Arrowsmith Catholic Academy	141	12	47
St Edward's College	140	44	48
St Francis Xavier's College (Academy)	185	70	58
St Gabriel's CE Primary	48		18
St James' Primary School (Academy)	28	11	11
St John Plessington Catholic College	233	62	73

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
St Joseph's Catholic MAT	2		1
St Joseph's Primary (Academy)	72	26	24
St Margaret's Church of England Academy	143	53	49
St Mary & St Thomas CE Primary School (Academy)	82	31	28
St Mary's Catholic College	222	146	65
St Michael's C of E High School (Academy)	148	95	52
St Silas C of E Primary School (Academy)	81	28	35
St Thomas C of E Primary (Academy)	39	19	11
Stanley High School (Academy)	123	67	37
Stanton Road Primary School (Academy)	64	26	17
Sylvester Primary Academy	55	15	17
The Academy of St Nicholas	152	137	56
The Beacon C E Primary School (Academy)	51	31	18
The Belvedere Academy	145	11	59
The Birkenhead Park School	134	130	46
The Prescot School (Academy)	145	87	45
The Studio (Academy)	29	(1)	11
The Sutton Academy	207	92	77
Town Lane Infant School (Academy)	66	27	20
Townfield Primary	134	46	46
Uni of Liverpool Maths School	15		5
Upton Hall School	132	31	44
Weatherhead High School	217	69	83
West Derby School (Academy)	183		59
West Kirby Grammar School	135	42	43
Whiston Willis Primary (Academy)	75	34	21
Willow Tree Primary	30	12	10
Wirral Grammar Boys (Academy)	119	33	40
Wirral Grammar School for Girls	114	39	33
Woodchurch High School	387	131	132
Yew Tree Primary Academy	62	37	19

Admission Bodies (Community) (21)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Age Concern - Liverpool	8	(8)	2
Arriva North West	996	8,092	145
Association of Police and Crime Commissioners	155	16	73
Birkenhead School (2002)	29	(29)	9
Care Quality Commission	18	(18)	6
Catholic Children's Society	19	(5)	3
CDS Housing	576		119
Citizens Advice Liverpool	21		6
Commutual (Torus Foundation)	53		15
Glenvale Transport Ltd/Stagecoach	91	(91)	25
Greater Hornby Homes	13		4
Greater Merseyside Connexions (Career Connect)	654	(584)	165
Liverpool Hope University	80	(80)	9
Local Government Association	1,250		820
Partners Credit Union	132	14	24
Port Sunlight Village Trust	24	(24)	8
South Liverpool Housing Ltd	117		30
Torus 62 Ltd	2,021		636
Welsh Local Government Association	560		247
Wirral Autistic Society (Autism Together)	740	(589)	124
Wirral Partnership Homes Ltd (Magenta Living)	1,816	(1,395)	730

Admission Bodies (Transfer) (50)	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Absolutely Catering (Holy Family)	18		5
Absolutely Catering (Longmoor)	5		1
Addaction (Sefton)	14		4
Agilisys Limited	254		2
Agilisys Ltd (Sefton)	7	(7)	80
Balfour Beatty PFI SEN School	17	25	4
Balfour Beatty Workplace Limited	53	(17)	15
Bouygues E & S FM UK Ltd	19	(53)	5
Bulloughs	3		1
Bulloughs @Emmaus			
Bulloughs @SLT	10		3
Change Grow Live	16	(3)	4
Churchill @ Sutton	13		4
City Health Care (St Helens)	126		44
Compass (Scolarest) Liverpool Schools	3	8	1
Compass (Scolarest) Wirral Schools	31	(31)	7
CWP (NHS)	533	225	171
Dolce Ltd	2		1
Friends of Birkenhead Council Kennels	11		3
Fun 4 Kidz	2		
Hochtief Liverpool Schools	16	(9)	3
Hochtief Wirral Schools	24	(14)	5
Improvement & Development Agency	1,821		1,101
Interserve (Facilities Mgmt.) Ltd	5		1
Kingswood Colomendy Ltd.	8	4	2
L&T FM (Chroda)	13		3
Maxim @ Bank View	3		1
Maxim @ Redbridge	13		3
Mellors Catering - Birkdale	12	(2)	3
Mellors - Rainhill	24		6
Mellors Catering - St Anns	3	3	1
Mellors Catering - St Johns	8		2
Mellors Catering - St Mary & St Thomas	1	2	
Mellors @ Sutton Academy			
Mitie Care & Custody Ltd	15		5
Orian Solutions	13		3
Sanctuary Home Care Ltd	24		7
Sefton New Directions Ltd.	549	(549)	153
SSE Contracting Limited	50	(46)	15
Tarmac Trading Ltd.	27		8

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Taylor Shaw - Great Meols	4	(2)	1
Taylor Shaw - Hugh Baird	3	1	1
Taylor Shaw - Raeburn	3		1
Taylor Shaw - Range	4	(2)	1
Taylor Shaw - St Andrews	2		
Veolia ES Merseyside & Halton	87	(87)	26
Volair Ltd	316		110
WCFT (NHS)	896	64	306
WIRED Ltd	15	2	5
Yunex Ltd	18	(6)	5
Sceme Employers where contributions have been received during 2021/22 but they had no Active Scheme Members as at 31 March 2022			
Mersey Waste		285	
Studio @ Deyes Academy		3	
Cobalt Housing Ltd	74	950	17
Merseyside Lieutenancy	12		4
North Huyton Communities Future		520	3
Absolutely Catering (St Oswald's)	2		
Caterlink Ltd.	17.	17	4
Graysons Education Limited	12		3
Huwel (Sherpa)	1		
Knowsley Youth Mutual Ltd	34		11
Provision for Bad Debt Closed Employer		(230)	
Totals	**122,986**	**8,063**	**63,390**

Appendix B

Pensions Committee Items

22 June 2021

Audit Plan

Statement of Accounts 2020/21

Local Government Pension Scheme Update

Budget Outturn 20/21 and Final Budget 21/22

Member Learning & Development Programme

Taskforce For Climate Related Financial Disclosure Reporting

Local Pension Board Minutes

Northern LGPS Update

Working Party Minutes

20 September 2021

Grant Thornton - The Audit Findings Report for Merseyside Pension Fund

Merseyside Pension Fund Annual Report & Accounts 2020/21 and Letter of Representation

Local Pension Board Review 2020-21 and Workplan 2021-22

Local Government Pension Scheme Update

Northern LGPS Update and Responsible Investment Policy

Minutes of Working Party Meetings

Pension Board Minutes

Pensions Administration System

29 November 2021

LGPS Update

Local Pension Board Minutes

Member's Learning & Development

Updated Investment Strategy Statement

Northern LGPS Update

Working Party Minutes

23 February 2022

Merseyside Pension Fund's Responsible Investment Policy and Human Rights

LGPS Update

Member's Learning & Development

Merseyside Pension Fund Budget Financial Year 2022/23

Catalyst Fund Update

Treasury Management Policy for 2022/23 and Annual Report for 2020/21

Complaints Policy for Merseyside Pension Fund

Northern LGPS Update

Local Pension Board Minutes

Minutes of Working Party Meetings

Attendance Record 2021 - 2022

	PENSIONS COMMITTEE				IMWP			
	22 JUN	20 SEP	29 NOV	23 FEB	29 JUN	15 SEP	16 NOV	2 MAR
Cllr Pat Cleary (Chair)	•	•	•	•	•	•	•	•
Cllr Jo Bird	•	•		•		•	•	•
Cllr Adrian Jones (Spokesperson)	•	•	•		•	•	•	
Cllr Chris Carubia	•	•	•	•	•	•	•	•
Cllr Helen Collinson	•	•	•	•				
Cllr Tony Cox	•	•	•	#			•	
Cllr. Jeff Green	•	•	•	•	•	•	•	•
Cllr Brian Kenny	•			•	•		•	
Cllr Cherry Povall, JP (Vice Chair)	#	•	•	#	•	•		•
Cllr Les Rowlands	•	•	•	•		•	•	
Cllr. Joe Walsh			•	•				
Cllr Ian Byrne (Liverpool City Council Co-Optee)								
Cllr Martin Bond (St Helens MBC Co-Optee)	•		•		•	•		•
Cllr Jayne Aston (Knowsley MBC Co-Optee)	•				•		•	
Cllr Paulette Lappin (Sefton MBC Co-Optee)				•	•			•
Roger Bannister (UNISON Co-Optee)				•	•	•	•	
Jane Corbett (Co-Optee)								
Donna Ridland (Pension Board)					•			
John Raisin (Chair of Pension Board)							•	

Deputy Attended

Conferences

	LA Responsible Investment Seminar	PLSA Local Authority Conference	All-Party Parliamentary Group for LA Pension Funds	LAPF Strategic Investment Forum	LGC Investment Seminar	PLSA ESG Conference	LGC Investment Seminar	LAPFF Business Meetings
	28 - 29 APR	18 - 19 MAY	19 MAY	5 - 6 JUL	9 - 10 SEP	9 - 10 MAR	24 - 25 MAR	2021 - 2022
Cllr Pat Cleary (Chair)		•	•			•		•
Cllr. Jo Bird (Spokesperson)						•		
Cllr Adrian Jones		•						
Cllr. Chris Carubia		•			•		•	
Cllr Helen Collinson								
Cllr. Tony Cox								
Cllr Tony Jones		•						
Cllr. Jeff Green								
Cllr Brian Kenny		•		•			•	
Cllr Cherry Povall, JP (Vice Chair)	•	•				•	•	
Cllr Les Rowlands		•						
Cllr Joe Walsh								
Cllr. Ian Byrne (Liverpool City Council Co-Optee)								
Cllr Martin Bond (St. Helens MBC Co-Optee)					•			
Cllr Jayne Aston (Knowsley MBC Co-Optee)						•		
Cllr Paulette Lappin (Sefton MBC Co-Optee)								
Roger Bannister (UNISON Co-Optee)		•				•		
Jane Corbett (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/ Bridget Pullen	0151 242 1390
Benefits/Payroll (Retirement Calculations and Payments)	Barbara King/ Martin O'Boyle/Claire Lloyd	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 8189
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Sarah Myers	0174 467 6627
Wirral Council	Matthew Slater	0151 691 8529

Merseyside
PENSION FUND

Report & Accounts 2021/22

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

283OCT22GB

WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

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

REPORT SUMMARY

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

RECOMMENDATION/S

The Local Pension Board be recommended to note the minutes of the Joint Committee meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options. It is an audit recommendation that minutes of the Northern LGPS joint committee meetings are reported to Pensions Committee and, by extension, the Local Pension Board.

3.0 BACKGROUND INFORMATION

3.1 The Northern LGPS Investment pool was established between Merseyside, Greater Manchester and West Yorkshire Pension Funds in response to the revised LGPS Investment Regulations 2016 which were, in part, designed to facilitate the pooling of assets between LGPS funds and improve access to infrastructure investments.

3.2 Minutes of the previous Northern LGPS joint committee meeting are attached at appendix 1.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. The operating costs of the Pool are reported annually and shared equitably between the participating funds.

5.0 LEGAL IMPLICATIONS

5.1 LGPS funds are required to pool their assets in order to comply with Regulation 7(2)(d) of the 2016 Investment Regulations. The regulation requires administering authorities to set out their ‘approach to pooling investments, including the use of collective investment vehicles and shared services’ in their Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The Joint Committee provides monitoring and oversight of the operations of the Northern LGPS Pool.

7.0 RELEVANT RISKS

7.1 Pooling has resulted in fundamental changes to oversight and management of LGPS assets. It is essential that Pensions Committee exercises its governance responsibilities in accordance with the Council’s constitution.

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environment and climate implications arising from this report. The NLGPS has a Responsible Investment policy explicitly addresses environment and climate implications as financially material to long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1 Minutes of Joint Committee meetings.

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

SUBJECT HISTORY (last 3 years)

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

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WIRRAL

PENSIONS COMMITTEE

14 DECEMBER 2022

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

REPORT SUMMARY

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REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
telephone:
email: peterwallach@wirral.gov.uk

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BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

SUBJECT HISTORY (last 3 years)

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

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

6 October 2022

Commenced: 11.00am **Terminated: 12.05pm**

Present:	**Cllr Gerald P Cooney (Chair)**	**Chair, Greater Manchester Pension Fund**
	Elizabeth Bailey	**Deputy Chair, West Yorkshire Pension Fund**
	Councillor Pat Cleary	**Chair, Merseyside Pension Fund**
	Councillor Cherry Povall	**Deputy Chair, Merseyside Pension Fund**
In attendance		
	Sandra Stewart	**Director of Pensions, GMPF**
	Peter Wallach	**Director of Pensions, MPF**
	Rodney Barton	**Director of Pensions, WYPF**
	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, GMPF**
	Dan Hobson	**Head of Real Assets**
	Alex Jones	**Investments Officer**
	Owen Thorne	**Merseyside Pension Fund**
	Greg Campbell	**Merseyside Pension Fund**
	Adil Manzoor	**Merseyside Pension Fund**
	Colin Standish	**West Yorkshire Pension Fund**
	Simon Edwards	**West Yorkshire Pension Fund**
	Alan McDougal	**PIRC**
	Janice Hayward	**PIRC**
	Tom Powdrill	**PIRC**
	Conor Constable	**PIRC**

Apologies for Absence: **Councillor Oliver Ryan – GMPF and Councillor Andrew Thornton - WYPF**

13. DECLARATIONS OF INTEREST

There were no declarations of interest.

14. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Oversight Committee held on 7 July 2022 were agreed as a correct record.

15. POOLING UPDATE

Consideration was given to a report of the Assistant Director, Funding and Business Development, GMPF, which provided an update on pooling activity since the previous Northern LGPS Joint Oversight 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 had 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.

Members were advised that Government was yet to publish a response to the consultation (it appeared that it would be superseded) and the 2015 guidance therefore, remained in force.

DLUHC civil servants had indicated that a consultation on several key policy areas for the LGPS was expected to be issued in autumn 2022. The consultation was expected to cover LGPS pooling as well as other related matters such as the implementation of TCFD ('Task-force on Climate-Related Financial Disclosure') requirements for LGPS funds and investing LGPS assets to support the levelling-up agenda. However, a consultation on implementation of TCFD requirements was released separately on 1 September (further details of which were provided in the report) and no further information had been released regarding pooling.

In early September Liz Truss replaced Boris Johnson as Prime Minister and appointed Simon Clarke as Secretary of State for Levelling Up, Housing and Communities. Paul Scully, who was originally appointed as Minister of State at DLUHC in July, was retained in post and was expected to be the Minister responsible for overseeing the LGPS. Given the recent ministerial changes, there could be further delay and/or material changes made to the proposed LGPS consultation referred to previously.

As reported at the previous meeting of the Joint Committee, DLUHC had once again issued its annual request for a further progress update from each of the Pools, setting out the assets transferred to the pool as at 31 March 2022 and an estimate of costs savings achieved and those expected in future.

DLUHC was keen for all pools to be reporting cost savings on a consistent basis. A consistent LGPS-wide methodology was agreed in principle between the pools last year and the proposals were endorsed by DLUHC. The main area of contention at some pools was regarding whether indirect transition costs such as bid/offer spreads should be included in the headline costs figures or disclosed separately, with pools having adopted different approaches in the past. Northern LGPS' costs savings had been calculated using the same methodolog***y*** as in 2021 and it was expected that other pools had also used a consistent approach.

The Northern LGPS submission was sent to DLUHC on 23 September. Copies of sections A and C of the Northern LGPS submission, which set out the assets pooled and cost savings achieved and projected in future, were attached in appendix to the report.

Northern LGPS' net cost savings for 2021/22 had been calculated as £40.7m (increasing from approximately £30m in 2020/21), giving total savings since inception of £112m. These figures were slightly higher than the future projections made last year (£37.9m). The increase in costs savings achieved was a result of the continued increase in commitments to the GLIL and NPEP vehicles, favourable movement in the $/£ exchange rate and, in particular, a material increase in the net asset value of GLIL. At the time of writing the report, the cost savings of most other LGPS pools were not known. Government was expected to report aggregated figures across the LGPS as a whole.

Members were advised that each of the partner funds in the Northern LGPS Pool was currently in the process of producing 31 March 2022 year end accounts and an annual report. Guidance on

preparing the annual report was provided by the accounting body CIPFA. This guidance currently included a section on accounting for asset-pooling arrangements.

In 2020 and 2021 it was agreed by the Joint Committee that a Pool Annual Report be produced, which funds would have the option of including within their respective annual reports. This would act to provide some of the information to satisfy CIPFA guidance and could be used by the funds in their communications with stakeholders to provide evidence of the Pool's progress against its objectives. A current draft of the 2022 Northern LGPS Annual Report was appended to the report.

Members were further advised that on 1st September, DLUHC issued a consultation seeking views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD'). The consultation was closing on 24th November. Whilst the consultation proposals placed requirements on administering authorities rather than pools, section 4 of the consultation sought views on the role of LGPS pools in delivering the requirements. Each of the partner funds had already voluntarily reported in line with the recommendations of the TCFD. In light of the above, it was recommended that the pool submit a joint, generally supportive consultation response.

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.

RESOLVED

(i) That the content of the report be noted, in particular the annual pooling update provided to DLUHC;

(ii) That the draft Northern LGPS Annual Report for 2021/22, as appended to the report, be noted; and

(iii) That a Pool level collaborative response to the consultation on TCFD reporting, with final sign off delegated to the Chair, be endorsed.

16. SCHEME ADVISORY BOARD UPDATE

Consideration was given to a report of the Director of Pensions, MPF, providing an update on the last meeting of the Investment, Governance & Engagement (IG&E) Sub-Committee that had taken place on the 26 September 2022.

Details of the actions and agreements from the meeting held on 23 May 2022 were appended to the report.

The principal items on the agenda for the 26 September 2022 included:

- Code of Transparency Update;
- RIAG Chair's report; and
- DLUHC Regulatory Update.

RESOLVED

That the content of the report be noted.

17. UPDATE ON RESPONSIBLE INVESTMENT

Tom Powdrill and Conor Constable, PIRC Ltd, Responsible Investment Advisor to the Northern LGPS, presented a report 'Voting on Workforce Issues', which explained that, whilst the 'S' in ESG (Environmental, Social and Governance) had attracted more attention in recent years, it remained an area where investor stewardship activity was in its infancy, and the use of voting rights specifically was very limited. Some of PIRC's pension fund clients had their own voting policy which addressed some of the issues. However, to PIRC's knowledge, there were no UK major

investors that were systematically taking workforce issues into account in the exercise of their shareholder voting rights. Therefore, applying a voting strategy informed by workforce issues to a wide group of UK companies would be an unprecedented and significant step. For the last 6 months PIRC had been developing a new database of FTSE All Share companies covering 80+ workforce indicators. PIRC were seeking funding to undertake the development of a policy framework to generate voting recommendations on workforce issues as a stand-alone project. Once completed it could be applied to provide voting recommendations driven by analysis of workforce factors.

They further presented Northern LGPS' Stewardship Report for Quarter 2 2022. The report explored tackling climate change; effective engagement and voting on shareholder resolutions.

RESOLVED
(i) That the presentation and the content of the latest quarterly Responsible Investment report be noted; and
(ii) That the expenditure, as set out in Appendix A to the report, for PIRC to undertake the development of a policy framework to generate voting recommendations on workforce issues, as a stand-alone project, be approved.

18. PERFORMANCE MEASUREMENT

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

An extract from the Northern LGPS reporting for periods to 30 June 2022 was attached as an Appendix to the report. The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

Officers continued to work closely with Portfolio Evaluation to separately identify NPEP and GLIL returns in these performance reports, given their importance to the Northern LGPS proposition.

RESOLVED
That the content of the report be noted.

19. COMMON CUSTODIAN UPDATE

The Assistant Director of Pensions Investments, GMPF submitted a report, which provided details of key performance indicators and key milestones and deliverables for the quarter to 30 June 2022 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.

20. DIRECT INFRASTRUCTURE PLATFORM (GLIL) UPDATE

Consideration was given to a report of the Assistant Director, Local Investment and Property, GMPF, providing an update on the progress with the direct infrastructure investment platform (GLIL) and to sought approval for a consultation exercise amongst stakeholders and wider market into how GLIL should position itself.

It was explained that the facilitation of infrastructure investments was one of the four criteria in the Government's pooling agenda. The principle was that through pooling of assets and investment resources, the LGPS could enhance the capability and capacity to invest infrastructure. The

Northern Pool, alongside Local Pensions Partnership, was the most advanced of the LGPS pools in this regard. This was through the creation of GLIL a direct infrastructure investing platform that was established, but which could also be developed and expanded through working with other pools.

Members were advised that GLIL had progressed well and had one external investor. There had been some engagement with other pools but this had not progressed as well as hoped. Officers had reflected on this and sought to analyse why; and also to review the operation of GLIL to ensure that it served the objectives of current owners.

The executive committee of GLIL engaged Triad consultancy to review the questions set out above. An executive summary of their report was attached as an appendix.

The key conclusions of the preliminary work were detailed and the GLIL executive team sought Members approval to progress the consultation exercise, engaging Triad to do further work as follows:

- Interviews and documentation thereof with advisers Members and other stakeholders of Member Funds as directed by the Director of each Fund to ascertain views;
- Structured Market research, and review of available benchmarking information into how large global asset owners deployed capital into infrastructure;
- Presentation of broad findings to special meeting of Northern LGPS JC in late November early December, date to be confirmed; and
- Support to GLIL EC in drawing up recommendations to bring forward to Northern LGPS JC on 3 February 2022.

The GLIL report to investors for the period ending 30 June 2022 was appended to the report. The key highlights, together with events and transactions after that date, were presented.

RESOLVED

(i) That the report be noted; and

(ii) That the consultation exercise and timetable for review, as set out in the report, be approved.

21. NORTHERN PRIVATE EQUITY POOL – REVIEW OF REGULATORY STATUS

The Assistant Director of Pensions Investments, GMPF, submitted a report, which presented a review of Northern Private Equity Pool's regulatory status by external legal advisers.

It was explained that Northern Private Equity Pool (NPEP) was incepted in May 2018 and following legal advice received at the time, it was concluded that it could operate without the inclusion of a management entity that was subject to regulatory approval and oversight. Such a conclusion relied on an analysis of the working arrangements of NPEP and the extent to which they were consistent with a "joint venture" interpretation rather than falling within the definition of a Collective Investment Scheme.

Officers believed it was sensible to revisit the analysis of the working arrangements of NPEP on a regular basis to ensure that there had been no changes in the regulatory or legal landscape that could change the conclusion of such analysis.

Officers engaged with Squire Patton Boggs to renew its analysis of the NPEP arrangements and activities and report on their regulatory status. Squire's report was appended to the report.

Members were advised that the external review concluded that there had been no legal or regulatory changes that were pertinent to NPEP and that it ought to continue to attract a "joint venture" interpretation and, therefore, its activities sat outside of the regulatory perimeter.

RESOLVED
That the content of the report be noted.

22. DATE OF NEXT MEETING

RESOLVED
It was noted that the next meeting of the Northern LGPS Joint Oversight Committee was scheduled to take place on 2 February 2023.

CHAIR

WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**DRAFT FUNDING STRATEGY STATEMENT**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Local Pension Board members with a copy of a report recently taken to Pensions Committee seeking approval for a revised Funding Strategy Statement.

RECOMMENDATIONS

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

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 It is the responsibility of the Pension Committee to agree the Funding Strategy and it is important that the Board gives due consideration to the steps taken by officers in compiling, consulting on and preparing a Funding Strategy Statement.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

3.1 The Local Government Pension Scheme (LGPS) Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

3.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation at 31 March 2022, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund. The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. As a matter of good governance, it will also be reviewed on an annual basis to ensure it remains up to date with changing legislation or other requirements.

3.3 The draft FSS has been streamlined for 2022 to make it easier for all parties navigate. The principal updates are set out in the accompanying report.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme (LGPS) Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Further analysis by the Fund Actuary and discussion with Fund Officers is required to determine the appropriate assumptions to adopt within the termination policy.

7.0 RELEVANT RISKS

7.1 The actuarial valuation is a vital governance tool to control the risks relating to the funding position and employer contributions; requirements which can have a material impact on budgets and local services. The funding strategy, (along with the investment strategy) used to inform the actuarial valuation, is a key determinant of the overall financial risk levels in the Fund. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

8.0 ENGAGEMENT/CONSULTATION

8.1 A consultation with employers on the key changes to the FSS took place from 31 October to 2 December 2022.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

9.3 The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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APPENDICES

Appendix 1 - Report to pensions Committee
Appendix 2 - Draft Funding Strategy Statement

BACKGROUND PAPERS

Mercer Demographic Summary Report

https://www.merseysidepensionfund.org.uk/Member/pdf/demogfx2022.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Standing Agenda Item The Funding Strategy Statement is reviewed at least triennially with the last review taking place following amendments to the LGPS regulations effective from 23 September 2020	**21 February 2021**

WIRRAL

PENSIONS COMMITTEE

14 DECEMBER 2022

REPORT TITLE:	**DRAFT FUNDING STRATEGY STATEMENT**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The LGPS Regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The draft FSS (attached as Appendix 1) has been produced and issued for consultation with employers. It incorporates the initial proposals on the funding strategy. Given the detail included, the draft FSS has been streamlined for 2022 to make it easier for all parties to navigate to the key areas that are pertinent to them.

The principal decision areas for the Committee in consultation with employers are the actuarial assumptions adopted, deficit and surplus recovery plans and the policies within the FSS.

The draft FSS is based on preliminary information so will need to be finalised once the valuation analysis is complete. The consultation with employers took place from 31st October to 2nd December 2022 with key changes presented to employers during dedicated employer forums and at the employer conference on 17th November.

RECOMMENDATIONS

That the Pensions Committee be recommended to approve the draft Funding Strategy Statement and delegate the refinement of the final version to the Director of Pensions and the Fund Actuary within the statutory deadline of 31 March 2023, following due consideration of the employer consultation and final valuation results.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 It is the responsibility of the Pension Committee to agree the Funding Strategy.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

3.1 The Local Government Pension Scheme (LGPS) Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

3.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation at 31 March 2022, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund. The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. As a matter of good governance, it will also be reviewed on an annual basis to ensure it remains up to date with changing legislation or other requirements.

3.3 Any material change should be brought to Committee for approval and employers would be consulted on the changes as necessary.

3.4 A draft FSS was prepared and sent to employers as part of the consultation and all responses were required by 2nd December 2022. The draft FSS has been streamlined for 2022 to make it easier for all parties navigate. It will be formatted and incorporates the following updates:

a) <u>CPI inflation assumption</u>

A key assumption which drives the projected benefit cashflows (the pension Fund liabilities) is the inflation rate. This is derived from on year-on-year projections based on market outlook and expectations from the Bank of England and represents the average inflation rate over a long period (50+ years). This is set by the Fund, based on advice from the Actuary and at

this valuation the inflation assumption has increased to 3.1% p.a. at the valuation date which compares to 2.4% p.a. at the 2019 valuation. This reflects the increased inflation outlook at this valuation. As expected, Government confirmed that the actual April 2023 increase to benefits will be based on the September 2021 to September 2022 CPI inflation which was 10.1%. As part of the proposed valuation assumption, we have also adjusted the benefit cashflows for the actual observed inflation over the 6 months from September 2021 to 31 March 2022.

b) <u>Discount Rate (average expected return) basis for past service liabilities (funding target)</u>

The key assumption which drives the present value of the Pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Fund, based on advice from the Actuary, to reflect the overall investment return which the Fund expects to achieve on its assets over the long term with a suitable and necessary allowance for prudence. In terms of setting contributions, the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the "real" investment return expected on the Fund assets).

The discount rate reflects the "real" expected asset return above the CPI baseline assumption when assessing the long-term solvency target. This is a challenge for this valuation given the current significant increase in inflation which increases the liabilities as the benefits are inflation linked and potentially reduces the "real return" on assets. Judgment is needed as to how persistent this period of higher inflation could be, with the risk that understating its duration in this valuation will transpire into higher contributions at the next valuation in 2025 taking into account the material volatility we have seen since the valuation date. This is to ensure the right balance between affordability and sustainability of employer contributions is struck.

The Actuary has proposed reducing the expected level of real return above CPI by 0.25% from the 2019 valuation to CPI+1.50% per annum, to maintain an appropriate level of prudence (as in the probability of achieving in the discount rate). This results in a gross discount rate of 4.6% p.a. at the valuation date.

c) <u>Discount Rate (average expected return) basis for future service liabilities</u>

Future service liabilities (which determine an employer's Primary Contribution Rate) are calculated using the same assumptions as the funding target except that a different financial assumption for the discount

rate is used to provide stability in the primary/future service contribution rate (as per the Regulations) and reflect the different characteristics of these liabilities.

As future service contributions are paid in respect of benefits built up in the future, the future service rate should take account of the market conditions applying at future dates, not just the date of the valuation; thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The Actuary's view is that the real return applied in 2019 could be too optimistic given the impact of inflation on investment returns and the challenging outlook since the valuation and advises a discount rate of CPI +2.00% per annum be considered (a 0.25% reduction). This results in a gross discount rate of 5.1% p.a. at the valuation date.

d) <u>Pay Growth assumption (including increments)</u>

Liabilities in relation to final salary benefits earned pre 2014 and the McCloud remedy are related to a member's final pay at retirement or leaving. The Actuary must make an assumption about future pay progression in the short and longer term. In terms of long-term pay growth the proposal is to retain the same assumption as the 2019 valuation. In terms of short-term pay growth over the 3 years from 1 April 2023, the intention is to adopt an average pay growth assumption option of either 3% p.a. or 4% p.a. depending on employer choice. Employers will be given the option which best suits their circumstances.

e) <u>Demographic Assumptions</u>

The baseline and short-term trend in mortality has been adjusted to reflect the Fund's experience since 2019 and wider trends of the progression of life expectancy improvements. The analysis indicates that there has been a slight increase in expected life expectancy versus the assumptions made at the 2019 valuation which has had broadly no change on the liabilities but a small increase in the future service rate.

The proposed assumption would result in an overall life expectancy change at age 65 as follows for sample members (disclosed 2019 life expectancies in brackets):

Male pensioner age 65: 21.3 years (20.8 years)
Male active member age 45: 23.0 years (22.4 years)

Female pensioner age 65: 23.8 years (23.9 years)
Female active member age 45: 25.9 years (25.8 years)

Some of the other demographic assumptions have also been changed at this valuation including the likelihood of a dependant's pension being paid and the level of pension being commuted for cash by members upon retirement has been updated, both of these changes have marginally increased the liabilities and future service rate.

f) <u>Recovery periods (surplus and deficit)</u>

When determining an employer's Secondary Contribution Rate we require a period over which to recover any deficit or run down any surplus to target full solvency i.e. a 100% funding level.

Where an employer is in deficit, there is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2019 deficit recovery plan (subject to other factors such as contract length and the expected remaining working lifetime of the members). This would apply to employers, subject to covenant and affordability considerations as per the draft FSS. Where employers are in surplus, the period over which the surplus can offset future contribution requirements will remain the same as the 2019 valuation (whether an employer was in deficit or surplus at that point). This approach supports the sustainability of future contributions.

g) <u>McCloud judgment</u>

The McCloud discrimination case relates to the protections provided to members close to retirement when the Fund benefits were changed in 2014. The costs of the remedy (as it was unknown) was not included in the 2019 valuation balance sheet although the estimated cost of a potential remedy was allowed for in employer contributions where employers opted for this. The Government has now set out how the remedy should be treated at the 2022 valuation to ensure consistency (as the remedy Regulations have yet to be passed into law). Therefore, in line with this recommendation, the Fund's approach has been to include amendments for all employers in the 2022 valuation to reflect the McCloud remedy when valuing past service liabilities. The McCloud benefit window ended on 31 March 2022 and so it does not affect employer future service contribution rates at the 2022 valuation.

h) <u>Climate change funding level scenario analysis</u>

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) is being considered as part of the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change. This section of the FSS is not finalised as we are still waiting on agreement on the principles of what should be included at this valuation.

i) <u>Other Fund policies</u>

The only new policy in the 2022 FSS covers 'Notifiable Events'. It is best practice to have a defined set of notifiable events that employers are obliged to inform the Fund about as it may have a material effect on the covenant, liabilities or membership profile. Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process.

The existing policies have all been reviewed and streamlined to enable stakeholders to read and understand the information more clearly. However, much of the content remains unchanged (except to reflect the 2022 valuation updates such as assumption and date changes etc). The termination policy will be subject to further review in view of the current gilt market volatility.

3.5 There are some areas which need refinement due to insufficient information being available (e.g. the principles around the scenarios to consider in relation to the funding effect of climate change). It is recommended that the Director of Pensions is given delegated powers to finalise the FSS having received full advice from the Actuary, should there need to be any changes as a result of further development on these matters or as a result of the outcome of the consultation.

3.6 Once the draft FSS has been approved by the Committee, it will be refined and finalised by the Director of Pensions in conjunction with the Fund Actuary to allow for the outcome of the consultation and final valuation results. The final FSS must be completed prior to the deadline for the actuary to certify the valuation results by 31 March 2023.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme (LGPS) Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Further analysis by the Fund Actuary and discussion with Fund Officers is required to determine the appropriate assumptions to adopt within the termination policy.

7.0 RELEVANT RISKS

7.1 The actuarial valuation is a vital Governance tool to control the risks relating to the funding position and employer contributions; requirements which can have a material impact on budgets and local services. The funding strategy, (along with the investment strategy) used to inform the actuarial valuation, is a key determinant of the overall financial risk levels in the Fund. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

8.0 ENGAGEMENT/CONSULTATION

8.1 A consultation with employers on the key changes to the FSS took place from 31 October to 2 December 2022.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

9.3 The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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APPENDICES

Appendix 1 - Draft Funding Strategy Statement

BACKGROUND PAPERS

Mercer Demographic Summary Report

https://www.merseysidepensionfund.org.uk/Member/pdf/demogfx2022.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Standing Agenda Item The Funding Strategy Statement is reviewed at least triennially with the last review taking place following amendments to the LGPS regulations effective from 23 September 2020	**21 February 2021**

FUNDING STRATEGY STATEMENT

MERSEYSIDE PENSION FUND

[DATE]

WIRRAL COUNCIL

AS APPROVED BY PENSION COMMITTEE, [DATE]

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Merseyside Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

Note - Square brackets indicate areas which are yet to be finalised. These will be completed before the FSS is formally signed off in March 2023.

A glossary of the key terms used throughout is available at the end of this document [here]

This Funding Strategy Statement has been prepared by Wirral Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension Fund, in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1
GUIDE TO THE FSS AND POLICIES

The information required by overarching guidance and Regulations is included in Sections 2 and 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)
The actuarial assumptions used for assessing the funding position of the Fund, individual employers and the contribution schedules, known as the primary rate, together with any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, are set out [here].

2. Deficit Recovery and Surplus Offset Plans (Appendix B)
The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [here].

3. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix C)
When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here].

4. Review of Employer Contributions between Valuations (Appendix D)
In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here].

5. Covenant Assessment and Monitoring Policy (Appendix E)
An employer's financial covenant is its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. This is a critical consideration in an employer's funding and investment strategy as it is the employers who underwrite the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces. Further details on how employer covenant is assessed and monitored by the Fund is set out [here].

6. Notifiable Events Framework (Appendix F)
Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process. More details are set out [here].

7. Ill Health Insurance Arrangements (Appendix G)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by the ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out [here].

2
BACKGROUND

It is the fiduciary responsibility of the Administering Authority (Wirral Council) to ensure that Merseyside Pension Fund (the "Fund") achieves its overarching objective to secure and maintain sufficient assets to cover all pension liabilities over the long-term.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy to achieve this objective outlining how each fund employer's pension liabilities are to be met.

The Administering Authority has taken advice from the Actuary in preparing this Statement.

[Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received.]

INTEGRATED RISK MANAGED STRATEGY

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

THE REGULATIONS

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS.

THE SOLVENCY OBJECTIVE

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

LONG-TERM COST EFFICIENCY

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the Actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

3
KEY FUNDING PRINCIPLES

PURPOSE OF THE FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary. The purpose of this FSS is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency";
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

THE AIMS OF THE FUND ARE TO:	THE PURPOSE OF THE FUND IS 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, mandatory, resolution 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.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

KEY PARTIES TO THE FSS

The Administering Authority should:	The Individual Employer should:
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund's actuary • prepare and maintain an FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties • monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice. • prepare and maintain a Pension Administration strategy outlining procedures and timelines for the exchange of information	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the Actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable) • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund • understand the pensions impacts of any changes to their organisational structure and service delivery model • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality • comply with Regulations in the case of a bulk transfer of staff. • Comply with the information exchange procedures and timelines as set out in the Pension Administration strategy

The Fund Actuary should:	A Guarantor should:
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its status as guarantor, as this may impact on the treatment of the employer in the valuation process or upon termination • where necessary, provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

SOLVENCY FUNDING TARGET

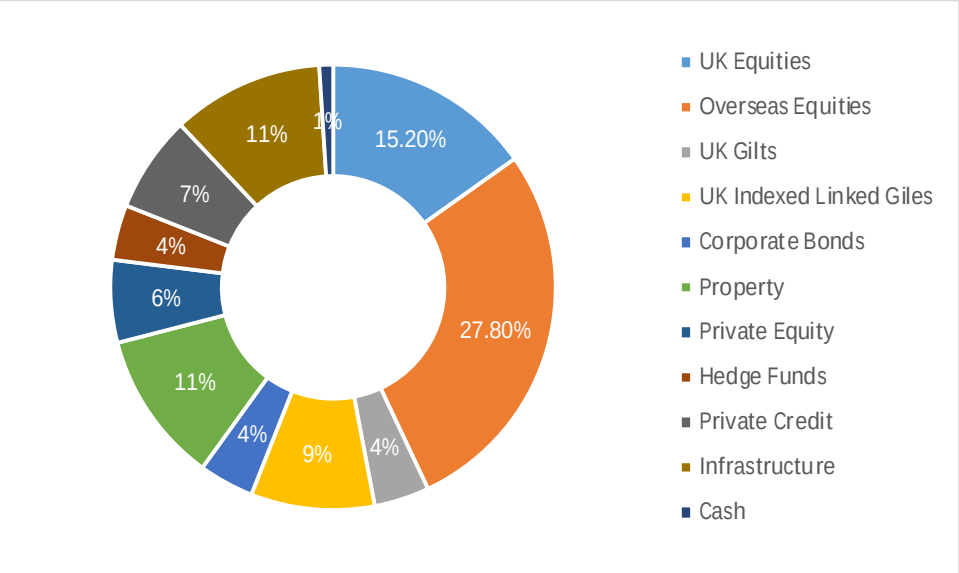
Securing the "solvency" and "long-term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance taking into account the investment strategy adopted by the Fund, as set out in the ISS, which can be found on the Fund's website.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below



RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of investment risk management techniques that cover the total Fund and/or specific employers and these have been allowed for in the actuarial valuation calculations. In outline these are set out below (further information can be found in the ISS).

Equity Protection	The Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).
Liability Driven Investments (LDI)	The Fund has implemented an LDI strategy in order to hedge part of the Fund's assets against changes in certain employer or orphan liabilities.
Lower risk investment bucket	This strategy predominately uses lower risk income generating assets (including corporate bonds, property, illiquid credit and infrastructure) and liability driven investments (LDI) (which fully hedges interest and inflation exposure), and is expected to mitigate (but not eliminate) funding volatility for employers within it. In these circumstances, the discount rate used will be derived to be consistent with the lower risk investment strategy. The implementation of a strategy constructed on this basis will better match the overall changes in the liabilities (solely due to discount rate and inflation changes) of those employers included in the strategy. All other things equal, this in turn would result in greater stability of the funding position for these employers. Once an employer is closer to reaching full funding, then this will also give greater stability to deficit

	contributions. It should be noted that an assessment of an employer's termination liabilities are linked to this strategy also so for employers considering termination, the lower risk strategy could be used to provide more certainty over an employer's termination position also.

The principal aim of these risk management techniques is to provide more certainty of real investment returns versus CPI inflation and/or protect against volatility in the termination position. In other words they are designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. The effect of these techniques has been allowed for in the actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

[CLIMATE CHANGE] (this section is subject to finalisation once the guidance has been provided)

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL	DEMOGRAPHIC
The financial risks are as follows:- • Investment markets fail to perform in line with expectations	The demographic risks are as follows:- • Future changes in life expectancy (longevity) cannot be predicted with any certainty. Increasing longevity is something which

• Protection and risk management policies fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position. In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including each separate investment bucket) is kept under regular review and the performance of the investment managers is regularly monitored. In addition, the risk management framework will help to reduce the key financial risks over time.	government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement • Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy. Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

GOVERNANCE	REGULATORY
Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme, • Changes to national pension requirements and/or HMRC Rules • Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy. • Membership of the Local Government Pension Scheme is open to all local government staff

• An employer ceasing to exist with insufficient funding or a bond which is not adequate. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.	and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

PENSIONS COMMITTEE

Wirral Council, as the Administering Authority for the Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of sixteen voting representatives and Wirral Council, as the Administering Authority, nominates eleven members, each of the other four local councils nominate a member and a representative of the remaining employers is elected by ballot. There are three non-voting members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the trade union and non-council representatives, Member changes to Committee are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 times a year and has set up an Investment Monitoring Working Party which meets at least 4 times a year to monitor investment performance and developments. A Governance and Risk Working Party has also been established which meets twice a year to discuss current and emerging risks and measures to mitigate and control risk. The Committee has delegated powers to the Director of Pensions for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director of Pensions and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two-way flow of information.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance issued by the Scheme Advisory Board.

The Pension Board is comprised of four employer representatives and four voting scheme

member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. Member representatives are scheme members of the Fund and have the capacity to represent scheme members of the Fund.

The Pension Board is chaired by an independent non-voting member and all representatives have significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the scheme regulations and other legislation relating to the governance and administration of the scheme; and
- any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

- the rules of the scheme and the law relating to pensions, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

The Council considers that the Pension Board is providing oversight of the administration and governance of the Pension Fund and does not have a decision-making role in the management of the Fund but makes recommendations to assist in ensuring compliance with its statutory responsibilities.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed from the following link:

http://mpfund.uk/pensionboard

MONITORING AND REVIEW

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund

- have been material changes in the ISS
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

FINANCIAL ASSUMPTIONS			
	2022 valuation assumption		Description
Investment return / discount rate	Higher Risk Investment Strategy Bucket	4.6% p.a. (past) and 5.1% p.a. (future)	Derived from the expected return on the Fund assets based on the long-term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.5% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Medium Risk Investment Strategy Bucket	4.35% p.a. (past) and 4.85% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS and the asset strategy of the medium risk investment bucket, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of [1.25% p.a.] above CPI inflation (past) and [1.75% p.a.] above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Lower Risk Investment Strategy Bucket	2.7% p.a. (past and future for a very mature employer)	Linked directly to the yields available for the assets within the lower risk investment strategy. The typical discount rate is equivalent to a return of 1% p.a. above gilt yields as at 31 March 2022.
Inflation (Retail Prices Index)	3.90% p.a.		The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).

Inflation (Consumer Prices Index)	Higher Risk Investment Strategy Bucket	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the higher, medium and lower risk strategies, reflecting the degree of inflation hedging inherent in each strategy [and will reflect the duration of an employer's liabilities in the case of a lower risk strategy]. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
	Medium Risk Investment Strategy Bucket	3.10% p.a. (includes an adjustment of 0.80% p.a.)	
	Lower Risk Investment Strategy Bucket	3.60% p.a. (includes an adjustment of 0.30% p.a. for a very mature employer)	
Salary increases (long-term)	4.60% p.a. for the higher and medium risk investment buckets. 5.1% p.a. for the lower risk investment bucket.		Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Salary increases (short-term)	Where applicable this is [3% or 4%] p.a. until 31 March 2026. As set out on individual employer results schedule.		Allowance has been made for expected short term pay restraint for some employers. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.		
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).		

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	[20.8]	[21.3]	[23.9]	[23.8]
Actives aged 45 now	[22.4]	[23.0]	[25.8]	[25.9]
Deferreds aged 45 now	[21.0]	[22.5]	[24.7]	[25.3]

For example, a male pensioner, currently aged 65, would be expected to live to age [86.3]. Whereas a male active member aged 45 would be expected to live until age [88.0]. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed and updated based on LGPS wide experience.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	117% S3PMA_CMI_2021 [1.75%] 107% S3PFA_M_CMI_2021 [1.75%]
	Dependants	140% S3PMA_CMI_2021 [1.75%] 126% S3DFA_CMI_2021 [1.75%]
	Ill Health	142% S3IMA_CMI_2021 [1.75%] 165% S3IFA_CMI_2021 [1.75%]
Active	Normal Health	121% S3PMA_CMI_2021 [1.75%] 107% S3PFA_M_CMI_2021 [1.75%]

	Ill Health	257% S3IMA_CMI_2021 [1.75%] 338% S3IFA_CMI_2021 [1.75%]
Deferred	All	129% S3PMA_CMI_2021 [1.75%] 116% S3PFA_M_CMI_2021 [1.75%]
Future Dependant	Dependant	137% S3PMA_CMI_2021 [1.75%] 125% S3DFA_CMI_2021 [1.75%]

OTHER DEMOGRAPHIC ASSUMPTIONS	
Commutation	It has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / civil partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates. An allowance for reasonable expenses will also be included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination valuation.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the

rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer-term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements, the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer in either the higher risk, medium risk or lower risk investment buckets, a pro-rata principle is adopted. This involves applying the appropriate individual employer investment strategy to each

employer unless this is varied by agreement between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares maybe restated for changes in data or other policies. The investment return credited will depend on which investment bucket the employers' assets are in.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

EMPLOYER RECOVERY PLANS– KEY PRINCIPLES

The average recovery period for the Fund as a whole is [xx] years at this valuation which is [x] years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish.

Employers may also elect to make lump sum prepayments of deficit contributions (either on an annual basis or a one-off payment) which could result in a cash saving over the valuation certificate period.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (flat or increasing year on year).

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account; the size of the funding shortfall; the business plans of the employer; the assessment of the financial covenant of the Employer, the security of future income streams; and any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The key principles when considering deficit recovery and surplus offsets are as follows:

1. Subject to consideration of affordability, as a general rule, the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit.

The deficit recovery period for closed admission bodies is 6 years (or the future working lifetime of the membership if lower). For employers with a limited participation in the Fund then the recovery period will be based on their length of expected participation in the Fund.

2. The deficit payment schedule will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.

Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

3. [For admitted bodies with a guarantee from the outsourcing scheme employer, the Administering Authority will discuss the appropriate deficit recovery period, where applicable, with the outsourcing scheme employer. Generally the deficit recovery period will be the length of the commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If the scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the scheme employer's. The terms of the scheme employer's contract with the admission body may be a factor in these cases where this is made known to the Fund.]

4. For any employers assessed to be in surplus, the recovery period will initially be determined in line with the recovery period from the preceding valuation although this will depend on covenant and basis of participation (subject to a total employer contribution minimum of zero). Where an employer is deemed to have a weaker covenant an alternative recovery period may be agreed at the discretion of the Administering Authority. This will also consider maintaining stability of contribution requirements at future valuations.

5. The applicable investment strategy for each employer will be reflected in the relevant employer's notional asset share, funding basis and contribution requirements. Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.

6. [The Fund's policy is not to allow the prepayment of employee contributions. The prepayment of primary contributions may be allowed at the Fund's discretion, however this applies to a limited number of employers in the Fund, with each employer notified separately. A copy of the primary contribution prepayment policy can be provided by the Fund upon request.]

7. Where increases in total employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, any increase in the primary contribution rate (from the rates of contribution payable in the year 2023/24) may be implemented in steps over a period of 3 years, depending on affordability of contributions as determined by the Administering Authority. The minimum step will be 0.5% of pay per annum (i.e. the increase in primary contribution rate must be at least 1.5% for this facility to apply). However, where total contributions (primary plus secondary) have reduced, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

The secondary contributions may be set with reference to a different funding target, subject to the discretion of the Fund.

8. As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit and we would not expect the recovery period to exceed the average recovery period of the Fund.

9. It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

   For those bodies identified as having a relatively weak covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

10. The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes as a result of any benefit costs being insured with a third party or internally within the Fund.

11. Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.

12. LEA schools and certain other employers within the Fund have been grouped with the respective Council.

13. Academies are treated as separate employers but at inception any past service deficit / surplus is allocated on an equitable basis consistent with the relevant LEA schools.

14. Any stabilisation methods requested by a contractor will need to be agreed with the original Scheme Employer before being implemented.

15. For admission bodies participating from 1 April 2017 who do not have a guarantor of sufficient financial standing e.g. a public authority based on the assessment of the Administering Authority, the basis of assessment for the contribution schedule, termination calculations and bond requirements will be on a lower risk investment strategy. The employer's assets will then be deemed to be invested in these lower risk assets and be credited with the returns derived

from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

16. For employers that do not have a financial year end of 31 March 2023 (e.g. if they instead have a 31 July 2023 year-end), the Fund can, at the employer's request allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 in this example).

APPENDIX C - TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS (DDAS)

EXITING THE FUND

TERMINATION ASSESSMENT OF AN EMPLOYER'S RESIDUAL PENSION OBLIGATIONS AND METHOD TO CALCULATE BONDS / FINANCIAL GUARANTEES

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an "exiting employer" under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The Fund's default termination policy is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). Further detail is set out below.

Depending on the circumstances and characteristics of the terminating employer, the termination assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically, this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer. The Fund will also consider the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation. The policy will always be subject to change in the light of changing economic circumstances and legislation.

In summary, depending on the employer type and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements for certain admitted bodies or designating bodies:-

1. **Employers with a guarantor** - Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer's liabilities. See further details in the table below.

2. **Employers with no guarantor in the Fund / only a guarantee of last resort (Lower Risk)** - Assessing the final liabilities using the lower risk funding basis and using a discount rate which is linked to the lower risk investment "bucket" but with adjustments as detailed in the table below. The residual liabilities would be "orphaned" within the Fund, although it is possible that a bond would be in place.

3. **Employers with no guarantor in the Fund / only a guarantee of last resort (Minimum Risk)** - Assessing the final liabilities using a discount rate which is based on a “minimum risk” approach as detailed in the table below. The residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. Typically, this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities and would be highlighted to an employer if applicable using a consistent set of principles.

If a guarantor refuses to take responsibility for the exiting employer, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis (point 2 or 3 above). In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy above and the termination assessment will assume that the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

The assumptions and approach used to assess the amount of a payment/credit payable upon termination will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date. With the following exceptions:

	Employers with a guarantor	Employers with no guarantor in the Fund / only a guarantee of last resort (Lower Risk)	Employers with no guarantor in the Fund / only a guarantee of last resort (Minimum Risk)
Financial assumptions	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body’s liabilities, the Fund’s policy is that the guarantor’s ongoing funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.	The lower risk basis based on the make-up of the lower risk investment “bucket” at the time of assessment. However, an adjustment will be made to the discount rate to reflect a reasonable estimate of any investment expenses, the potential asset default and reinvestment risk associated with the asset strategy, the associated costs of termination and any other reasonable prudential margins that are appropriate based on the advice of the Actuary.	A “minimum risk” approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities. In addition, the deduction from RPI to arrive at the CPI assumption will be derived as per the lower risk strategy, unless deemed appropriate to vary this by the Actuary and Administering Authority.
		This basis provides some mitigation against financial market risks and protection for the Fund. In the event that the	

		termination basis produces a higher discount rate than the employer's ongoing valuation funding basis, the ongoing valuation funding basis will be used.
Demographic Assumptions	In line with the assumptions adopted for the 2022 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	In line with the assumptions adopted for the 2022 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to 2.25% p.a. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
McCloud	[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]	
Additional Costs	The exit valuation costs and any additional costs incurred will be identified and included within the exit valuation. These costs will be paid by the exiting employer unless the outsourcing scheme employer or guarantor directs otherwise. In the case of employers without a guarantor, there may also be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share. Furthermore, if appropriate, a reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.	
Default policy once the termination certificate has been provided	The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute	• In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. • In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process. • The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. Where the approach is modified, a separate schedule will be provided to that employer

	between the interested parties.	setting out the approach to adopt and this will be done using consistent principles.

The above funding principles will also impact on the bond requirements for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

The Administering Authority can vary the treatment on a case-by-case basis (based on the size and risk of a particular employer) at its sole discretion if circumstances warrant it based on the advice of the Actuary and any representations from the interested parties (where applicable). The employer will be notified of this accordingly.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the exiting employer must be produced by the Actuary at the time when participation in the Fund ends.

DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR WHO WILL ACCEPT RESPONSIBILITY FOR RESIDUAL LIABILITIES)

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's default policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. The interested parties involved (i.e. the Fund, the exiting employer and the guarantor) will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor (in particular, whether any deficit or surplus on termination will be the responsibility of the exiting employer or the guarantor). In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

[The Fund will make a determination in all cases whatever the circumstances. Generally, where there is insufficient clarity or ambiguity exists within the contract the Fund's default in these cases is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor. This is because the Fund would assume that, had there been a deficit, this would have been the responsibility of the outsourcing scheme employer. Any determination made by the Fund with regard to the allocation of a surplus can be challenged by one or other of the interested parties who can make representations in accordance with the procedure set out in the Regulations (see below).] In addition, where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations.

For the avoidance of doubt, where the outgoing employer is not responsible for any termination liability under a risk sharing arrangement, then the default position is that no exit credit will be paid, unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be

paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of their determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). Under the Regulations the Fund has complete discretion as to whether it agrees to put a DDA in place provided that it follows the procedure set out in the Regulations.

If an employer requests that an exit debt payment is recovered over a fixed period of time (e.g. via a Debt Spreading Agreement ("DSA")) or that they wish to enter into a Deferred Debt Arrangement (DDA) with the Fund, they must make a request in writing covering the reasons for such a request.

Any deviation from the default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of the Fund (and therefore ultimately taxpayers) to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer, future business plans and also whether any security is required and available to back the arrangements. Further details regarding covenant monitoring is set out within Appendix E.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period via a DSA.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time, taking into consideration the social impact on the employer's future service demands. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant advisor and any other specialists necessary

g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt upfront or via a DSA, an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. [This will only be considered when there are issues of affordability that risk the financial viability of the employer organisation and the ability of the Fund to recover the debt. Typically this will be relevant to small 'not for profit' organisations that constitute a potential risk to the Fund because they may cease operations with insufficient residual assets to meet their pension liabilities. A DDA would be at the request of the employer in writing to the Administering Authority.]

The following process will determine whether the Fund will agree to allow the employer to enter into such an arrangement:

1. The Administering Authority will request updated covenant data from the employer including management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). [If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.]

3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

    a. What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority will not enter into such an arrangement unless they

are confident that the employer can support the arrangement in future. Provision of security may also result in a review of the recovery period and other funding arrangements.

b. The investment strategy that would be applied to the employer e.g. the higher, medium or lower risk bucket which could support the arrangement.
c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
d. What the updated secondary rate of contributions would be required up to the next valuation.
e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
f. The advice of the Actuary, covenant, legal and any other specialists necessary.
g. The responsibilities that would apply to the employer while they remain in the Fund.
h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
i. The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer, and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.

6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer and will be charged as an upfront payment to the Fund.

APPENDIX D - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the overarching policy intent is that contribution reviews are not permitted outside of a full valuation cycle. However, changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1. **Significant changes in the employer's liabilities**

   This includes but is not limited to the following scenarios:

   a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
      i. Restructuring of an employer
      ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
      iii. A bulk transfer into or out of the employer
      iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
      v. Where the aggregation of member movements materially shortens the expected time horizon for continued participation in the Fund

   b) Two or more employers merging including insourcing and transferring of services

   c) The separation of an employer into two or more individual employers

   In terms of assessing the triggers under 1 above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

   Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2. **Significant changes in the employer's covenant**

   This includes but is not limited to the following scenarios:

   a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement or creditor (e.g. banks), which may impair the security provided to the Fund.

   b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

   c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

   In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances, employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix F).

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any

specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where a contribution review is triggered by a significant change in employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy via the employer investment buckets.

In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions if a contribution review is deemed necessary. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisor.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

As well as revisiting the employer's funding plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the higher risk, medium risk or lower risk bucket) in line with this FSS.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available.

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

APPENDIX E – COVENANT ASSESSMENT AND MONITORING POLICY

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is may be undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

- Type of employer body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Whether there is a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation

[The employer covenant will be assessed based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure. In addition, employers may be contacted to gather further information. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.]

FREQUENCY OF MONITORING

It is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation as a matter of course. The Funding position will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months.

In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately. The notifiable event requirements are set out in Appendix F.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent funding/investment approach (e.g. the lower risk basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX F - NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published ('A Guide for Administering Authorities') in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of the employer involving significant changes in staffing
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
   iii. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
   v. A decision which will restrict the employer's active membership in the future*

b) Two or more employers merging including insourcing and transferring of services*

c) The separation of an employer into two or more individual employers*

d) Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

2) Significant changes to the employer covenant

i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

a. An employer's forecasts indicate reduced affordability of contributions.
b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
c. Provision of security to any other party including lenders and alternative pension arrangements
d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
g. The employer has defaulted on payments
h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
j. An employer becomes insolvent

ii. A change in the employer's circumstances

This includes but is not limited to the following scenarios, where applicable:

a. A merger of the employer with another organisation
b. An acquisition by the employer of another organisation or relinquishing control
c. An employer commences the wind down of its operations or ceases to trade
d. A material change in the employer's business model
e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
f. The employer becoming aware of material suspected / actual fraud or financial irregularity
g. The employer becoming aware of material legal or court action against them
h. There has been suspension or conviction of senior personnel
i. Regulatory investigation and/or sanction by other regulators
j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

a. No further action required
b. More detailed request for further information and ongoing monitoring
c. The Fund will review the documentation provided and respond on next steps
d. A review of employer contributions
e. A review of the recovery period used to calculate secondary contributions
f. A review of the employer's investment bucket
g. A review of the termination position and discussions with the employer as to how this may be addressed
h. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

APPENDIX G – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENT

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary and after considering potential alternative insurance arrangements) a captive insurance arrangement was established by the Administering Authority to cover ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2017. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2023/26 is 0.3% of pensionable pay per annum
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Academies
- Community related Admitted Bodies
- Contract related Admitted Bodies (where the guarantor is also in the captive arrangement)
- Designating/Resolution Bodies.

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. [At the discretion of the Administering Authority and where is it felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.]

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs are recovered from the employer, either at the next valuation or at an earlier review of the contributions due, including on termination of participation.

EMPLOYER RESPONSIBILITIES

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.**

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough. Where an employer provides notice to exit the Fund, an automatic review will take place of any ill health retirements that have been awarded to ensure that employers within the captive arrangement are not disadvantaged. This may mean that the expected future premiums will be deducted as part of the termination assessment.

APPENDIX H - GLOSSARY OF TERMS

ACTUARIAL VALUATION: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

BENCHMARK: a measure against which fund performance is to be judged.

BENEFITS: The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI and the method of calculation is different. The CPI is expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

CONTINGENT ASSETS: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

COVENANT: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

DEFERRED DEBT AGREEMENT (DDA): A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

DEFERRED EMPLOYER: An employer that has entered into a DDA with the Fund.

DEFICIT: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

DERIVATIVES: Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

EARLY RETIREMENT STRAIN: the additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

EQUITY PROTECTION: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

EXIT CREDIT: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

FUNDING OR SOLVENCY LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document which the Administering Authority is obliged to prepare and publish that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

GUARANTEE / GUARANTOR: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

GUARANTEE OF LAST RESORT: for the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

HEDGING: a strategy that aims to reduce funding volatility using Liability Driven Investment (LDI) or other techniques. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

HEDGE RATIO: The level of hedging in place as a percentage of the liabilities and can be 0% to 100%. This can be in relation to interest rates, inflation rates or real rates of return.

ILL HEALTH CAPTIVE: this is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

INVESTMENT BUCKET: this describes a bespoke investment strategy which applies to one or more employers and is dependent on the liability and risk profile. Dictates the financial assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the investment strategy for the relevant investment bucket. For the higher and medium risk investment bucket, this is expressed as an expected return over CPI.

INVESTMENT STRATEGY: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, accumulated to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LONG TERM COST EFFICIENCY: this is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

LOWER RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the expected long term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment bucket.

MATURITY: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

MCCLOUD JUDGMENT: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

MEMBERS: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired and dependants of deceased ex-employees).

MINIMUM RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PAST SERVICE LIABILITIES: this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits

together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members compared to their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be sufficiently prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB FUNDING BASIS OR SAB BASIS: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers.

SCHEME EMPLOYERS: organisations that participate in the Merseyside Pension Fund.

SECTION 13 VALUATION: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SECONDARY RATE OF THE EMPLOYERS' CONTRIBUTION: an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For

any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates (subject to an overall minimum of zero).

SOLVENCY/FUNDING LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

SOLVENCY FUNDING TARGET: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

STRAIN COSTS: the costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

SWAPS: a generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

50/50 SCHEME: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**UPDATE ON 2022 ACTUARIAL VALUATION**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board Members with a copy of a report on the 2022 actuarial valuation provided to Pensions Committee on 14 December 2022.

RECOMMENDATION/S

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

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION/S

1.0 There is a requirement for Members of the Board to be kept up to date with legislative and industry developments as part of their role in supporting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

3.1 This report informs Members that the Actuary has completed the calculations for the 2022 actuarial valuation based on membership and cashflow data provided by the Fund at 31 March 2022.

The purpose of the valuation is to set a funding plan that strikes a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2023 to 31 March 2026.

4.0 FINANCIAL IMPLICATIONS

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

5.0 LEGAL IMPLICATIONS

5.1 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

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

7.0 RELEVANT RISKS

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

8.0 ENGAGEMENT/CONSULTATION

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

9.0 EQUALITY IMPLICATIONS

9.1 DLUHC and the Scheme Advisory Board undertake equality impact assessments regarding the provisions of the LGPS Regulations and the long-term cost efficiency of Scheme funding arrangements.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none directly arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: **Yvonne Murphy**
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APPENDICES

BACKGROUND PAPERS

CIPFA: the guide for local pension boards

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Local Pension Board	**05.02.2020**

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WIRRAL

PENSIONS COMMITTEE

14 DECEMBER 2022

REPORT TITLE:	UPDATE ON 2022 ACTUARIAL VALUATION
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report informs Members that the Actuary has completed the calculations for the 2022 actuarial valuation based on membership and cashflow data provided by the Fund at 31 March 2022.

The purpose of the valuation is to set a funding plan that strikes a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2023 to 31 March 2026.

All individual employer results were provided to employers at the start of November setting out their initial valuation results.

The Draft Funding Strategy Statement to support the valuation process is a separate agenda item at this Committee meeting.

RECOMMENDATIONS

That the Pensions Committee be recommended to approve the valuation basis and authorise the Fund Actuary to certify the final valuation report containing employers' contributions payable for the period 1 April 2023 to 31 March 2026.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

1.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments as part of their decision-making role.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

3.0 BACKGROUND INFORMATION

3.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework for the valuation process. The regulations require an actuarial assessment of the Fund's assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years.

3.2 In order to undertake the valuation, the Actuary must have regard to the draft funding assumptions which went out for consultation with employers from 31st October to 2nd December 2022.

3.3 As part of the consultation employers were asked to consider the affordability versus sustainability of future contribution rates when deciding on the level of contributions payable when reviewing budgets. This is due to the continued uncertainty in relation to the economic and market outlook as well as inflation.

3.4 The level of employer contributions and the parameters set out in the draft FSS aim to achieve sustainability when taken in conjunction with the investment strategy. Whilst the Fund is responsible for setting the strategy to achieve this, employers also have a responsibility to consider the sustainability of contributions in the longer term when making decisions on the level of contributions at each valuation.

Valuation Results

3.3 The final actuarial outcome will be certified following finalisation of the Funding Strategy Statement, however, preliminary whole Fund results (based on the proposed assumptions in the draft FSS) are set out below, alongside the results from 2019 valuation for comparison purposes:

	2019		2022
ASSETS	£8,883m		£11,001m
LIABILITIES	£8,793m		£10,362m
SURPLUS	£90m		£639m
FUNDING LEVEL	101%		106%
AVERAGE EMPLOYER FUTURE SERVICE (PRIMARY) CONTRIBUTION RATE (% OF PAY)	16.8% of pay		18.5% of pay

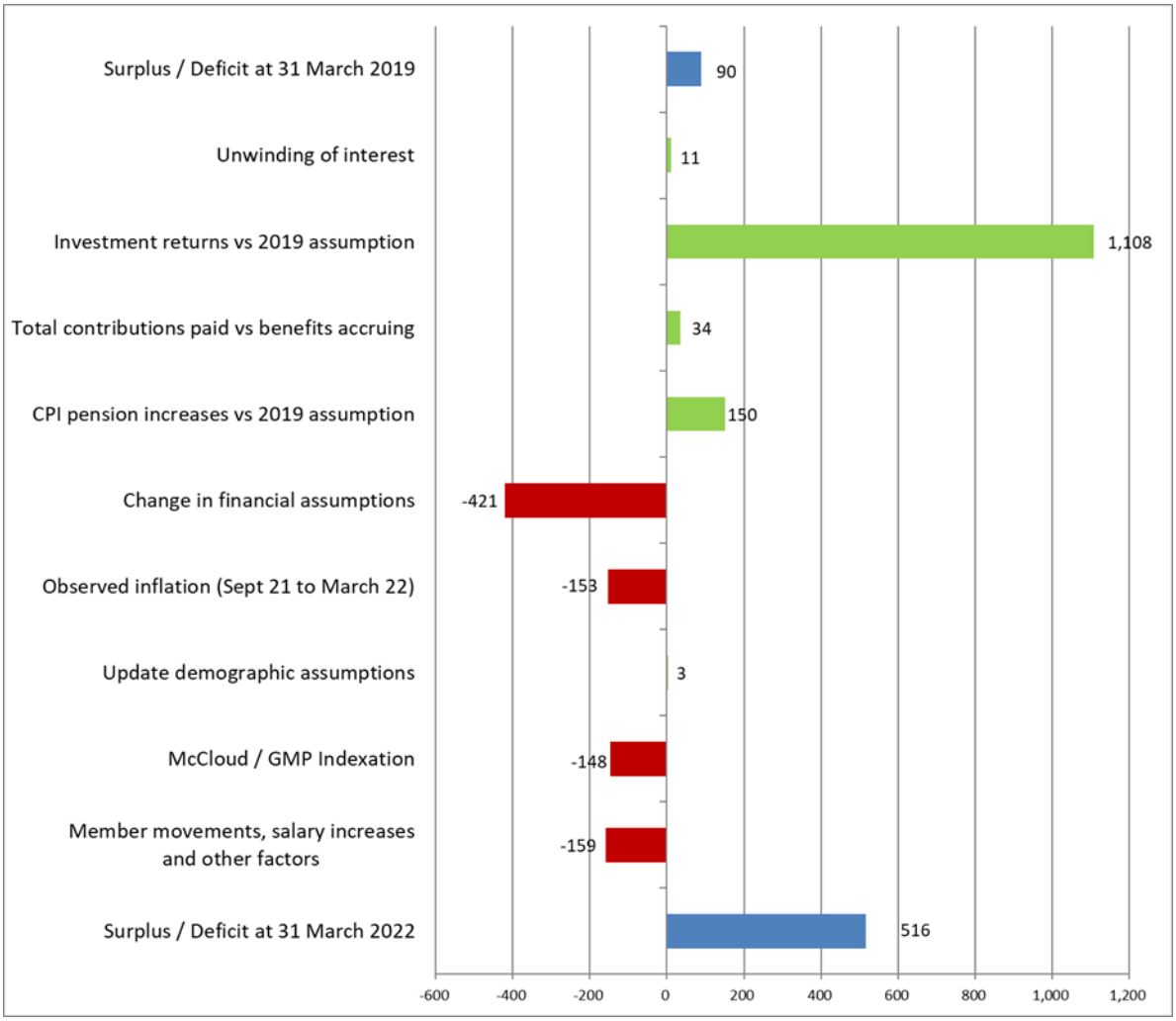
3.4 The emerging preliminary whole fund results present a funding level of 106% with an associated surplus of £639m and an average employer future service cost of 18.5% of pay. The position presented follows in-depth discussions between the Fund Actuary (Mercer), officers and constituent employers in relation to the core financial and demographic assumptions.

3.5 These results will be subject to change as the valuation is completed for each employer, in particular, any changes to the assumption for short term pay (the results above assume an average pay award of 4% p.a. for the next 3 years) and the impact of some weaker covenant employers being assessed on the medium or lower risk bucket assumptions. The results will be disclosed within the 2022 valuation report.

3.6 Overall the theoretical total average employer contributions are expected to fall at this valuation due to the improved funding position despite an increase in the future service rate. The outcomes will vary materially between employers although the major councils will broadly follow the total Fund.

3.7 Analysis of the change in position during the inter-valuation period is set out below and commentary on the principal factors that influenced the improvement in the funding position:

Analysis of Change since 2019



a) **Positive investment returns** – The total investment return for the Fund was c25% for the three-year period to 31 March 2022. This was significantly higher than the expected return based on the assumptions adopted at 2019 (expected return of c13% for the 3 years to 2022) and so resulted in a gain of £1,108m for the Fund.

b) **Contributions paid –** The total contributions paid into the Fund were higher than the cost of the benefits that were accrued by members, this therefore improved the funding position by £34m.

c) **Change in discount rate –** The discount rate reflects the "real" expected asset return above the CPI baseline assumption when assessing the long-term solvency target. This is a challenge for this valuation given the current

significant increase in inflation which increases the liabilities as the benefits are inflation linked and potentially reduces the “real return” on assets. A judgment is needed as to how persistent this period of higher inflation could be, with the risk that understating its duration in this valuation will transpire into higher contributions at the next valuation in 2025 taking into account the material volatility we have seen since the valuation date. This is to ensure the right balance between affordability and sustainability of employer contributions is struck. The Actuary has proposed to reduce the expected level of real return above CPI by 0.25% from the 2019 valuation (from CPI plus 1.75% at 2019 to CPI plus 1.5% at 2022). This therefore increases the value of the liabilities and worsens the funding position by £421m.

d) **Observed inflation** – This reflects the increased inflation outlook at this valuation. The actual April 2023 increase to benefits is expected to be based on the September 2021 to September 2022 CPI inflation which was 10.1%. This is subject to confirmation by the Government. As part of the proposed valuation assumption, we have also adjusted the benefit cashflows for the actual observed inflation over the 6 months from September 2021 to 31 March 2022. This has increased the liabilities by £153m.

e) **Change in demographic assumptions** – The Actuary performed a review of the demographic assumptions as part of the 2022 valuation, based analysis of the Fund’s membership. The outcome was:

   a. The baseline and short-term trend in mortality has been adjusted to reflect the Fund’s experience since 2019 and wider trends of the progression of life expectancy improvements. The analysis indicates that expected life expectancy (versus the assumptions made at the 2019 valuation) has changed as follows:
      i. a slight increase for males
      ii. a slight decrease for females
      iii. a material decrease for ill health pensioners and some dependant pensioners

      Overall this means there is a small reduction in liabilities due to the mix of different categories of member and their relative liability size. A more detailed breakdown is set out below.

   b. Some of the other demographic assumptions have also been changed at this valuation including the likelihood of a dependant’s pension being paid and the level of pension being commuted for cash by members upon retirement has been updated.

   Overall, this change in assumptions has improved the funding position by £3m as a result of the above changes.

f) **McCloud** – The Government has now set out how the remedy should be treated at the 2022 valuation to ensure consistency (as the remedy Regulations have yet to be passed into law). Therefore, in line with this recommendation, the Fund's approach has been to include amendments for all employers in the

2022 valuation to reflect the McCloud remedy when valuing past service liabilities. The impact of including McCloud increases the liabilities by £148m.

g) **Member movements and other factors** – There are a number of factors that are included within this figure, including general membership movements such as allowance for salary growth, normal and ill health retirements, withdrawals from the Fund and deaths. Overall, these factors have reduced the funding position by £159m.

Future Service Contributions

3.8 The whole Fund future service contribution rate has increased at this valuation from 16.8% to 18.5% of pensionable pay. The material factors which result in the rising costs of future accrual are set out below (the balance relates to the change in membership):

a) **Change in discount rate** – As future service contributions are paid in respect of benefits built up in the future, the future service rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only. The Actuary's view is that the real return applied in 2019 could be too optimistic given the impact of inflation on investment returns and the challenging outlook since the valuation and advises a discount rate of CPI +2.00% per annum be considered (a 0.25% reduction). The reduction in the "real" discount rate has increased the future service rate by 1.3% of pay.

b) **Change in demographic assumptions** – As set out above, the Actuary performed a review of the demographic assumptions which has led to an update to the life expectancy, proportion married and commutation assumptions. As life expectancy assumptions have changed and members are likely to commute less pension than allowed for previously, this has led to an increase in the future service rate of 0.2% of pay. No change has been made to the ill health assumption. A more detailed breakdown is set out below.

Valuation Assumptions

3.9 The main financial assumptions adopted (for the higher risk bucket) are as follows:

	Past Service % p.a.	**Future Service % p.a.**
Investment return (pre & post retirement)	4.6	5.1

Long term salary inflation	4.6	4.6
Pension increases	3.1	3.1

Demographic Assumptions Update

3.10 As discussed above, there have been changes made to the non–financial assumptions adopted in the previous valuation. As referred to above, Mercer has undertaken an analysis of its local authority client base, with particular focus on Merseyside Pension Fund's experience relating to mortality, commutation, ill health retirements and proportion of married members.

The findings were incorporated into the preliminary actuarial valuation calculations with the impact on the whole fund deficit and future service rate as follows:

Assumption	% of Liabilities	Future service rate (% of pay)
Mortality post retirement	↓ -0.2%	↓ -0.2%
Commutation at retirement	↑ +0.3%	↑ +0.3%
Proportions married/partner	↑ +0.1%	↑ +0.1%
Mortality pre retirement	↓ -0.2%	→ 0.0%
Ill-health (no proposed change)	→ +0.0%	→ +0.0%
Total	→ +0.0%	↑ +0.2%

<u>Resultant Contributions</u>

3.11 Employer contributions are calculated in two steps:

a) Future service (primary) contributions (% of pay) - to cover the costs of future benefit accrual by active members and;

b) Deficit contributions or surplus offsets, both expressed as £ amounts, to arrive at the rate each employer is required to pay to attain the funding target

3.12 The contribution rates for individual employers reflect their own circumstances with regard to their employer status and strength of covenant, as these aspects determine the pace of funding in regard to the amount of deficit contributions payable and surplus offsets to future service contributions.

3.13 The notional recovery period used for the Fund as a whole is based on the recovery period that applied to each employer in the Fund (with an aim to recover any deficit or run down any surplus to target full solvency i.e. a 100% funding level). Where an employer is in deficit, there is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2019 deficit recovery plan (subject to other factors such as contract length and the expected remaining working lifetime of the members). This would apply to employers, subject to covenant and affordability considerations as per the draft FSS. Where employers are in surplus, the period over which the surplus can offset future contribution requirements will remain the same as the 2019 valuation (whether an employer was in deficit or surplus at that point). This approach supports the sustainability of future contributions.

3.14 All individual initial employer results were provided to employers in November during dedicated employer forums which included one-to-one sessions with the Fund Actuary with the focus on contribution requirements and affordability. The results are subject to consideration of employer covenant and where necessary further meetings may take place upon completion of the covenant review. All balance sheets for employers now include McCloud.

3.15 Throughout the valuation process, the Fund has engaged with the Merseyside Finance Directors on the key assumptions and policies to ensure full transparency in the process to accord with budget planning.

3.16 As in the previous valuation, no advance allowance for early retirement (other than ill health) has been included in the calculations. Such retirements will be funded by additional payments (on top of the recommended employer's contribution rate) as and when they occur.

3.17 The final valuation position will be declared following approval of both the Funding Strategy Statement and Investment Strategy Statement. Individual employer contributions will be certified with the new rates taking effect from 1 April 2023.

4 FINANCIAL IMPLICATIONS

4.1 As set out in the report

5 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework for the valuation process. The regulations require an actuarial

assessment of the Fund's assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years.

6 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 In discussions with the major councils, it has become apparent there is a need to consider budgetary constraints faced by employers as a result of reduced public sector funding, the high inflationary environment and the direct impact of increases to employer contributions on front line services.
Consequently, Fund officers have explored various funding models and risk reduction strategies with employers to stabilise contributions which balance the administering authority's statutory responsibilities with regard to solvency and long-term cost efficiency against employer affordability.

6.2 The funding position of the Fund will be kept under regular review during the period to the next formal triennial valuation at 31 March 2025.

7 RELEVANT RISKS

7.1 It is imperative that the Administering Authority takes a prudent view when negotiating the financial and demographic assumptions for the 2022 Triennial Valuation, to secure the long-term solvency of the Scheme.

7.2 To achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments may lead to some employers exiting the Fund leaving irrecoverable debt.

8 ENGAGEMENT/CONSULTATION

8.1 In undertaking the actuarial valuation, Fund officers have engaged with employing bodies in order to strike a balance between sustainability and affordability.

9 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

9.3 The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

10 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

Slides from the Valuation Meeting with Employers, November 2022

https://www.merseysidepensionfund.org.uk/Member/pdf/valmeet2022.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Standing Agenda Item **2019 Actuarial Triennial Valuation**	3 February 2020

WIRRAL

LOCAL PENSION BOARD

16 DECEMBER 2022

REPORT TITLE:	**CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS IN THE LOCAL GOVERNMENT PENSION SCHEME**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report informs Board members of Merseyside Pension Fund's (MPF) response to a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) seeking views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

RECOMMENDATION/S

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The consultation was issued on 1 September which only provided time for a briefing report to be prepared for September's Pensions Committee. As an important area of policy, it is important that Pensions Committee is informed of the Fund's final response.

2.0 OTHER OPTIONS CONSIDERED

2.1 The option not to respond to the consultation was considered but was dismissed in view of the materiality of the subject matter and the implications of the anticipated requirements on LGPS funds.

3.0 BACKGROUND INFORMATION

3.1 Board members were informed of the consultation at September's Board meeting and the recommendation that responses should be prepared in respect of the Northern LGPS Investment Pool (NLGPS) and for the Fund. Since that time, officers of the Fund have been working with their pooling colleagues to agree a response on behalf of NLGPS. That response refers to responses from the Local Authority Pension Fund Forum (LAPFF) and National LGPS Scheme Advisory Board (SAB) which are attached at appendix 1. Having discussed the joint response with the Chair, it was felt unnecessary for a separate response to be prepared on behalf of MPF. The Pool's response is attached at appendix 4.

3.2 In the interests of brevity, the response makes reference to consultation responses from LAPFF and SAB and is generally supportive of the proposals. Of particular note is the Fund's view that further delay at this point would be unhelpful and should be cautioned against, for reasons already outlined in the LAPFF and SAB consultation responses that NLGPS is endorsing. The LAPFF response includes the observation that the consultation document is vague about the scope and timeline for DLUHC to produce detailed and technical statutory guidance to support LGPS in applying the future regulation.

3.3 This is an area where best practice is still evolving. The TCFD framework is itself a work in progress and, while DLUHC's proposals are based on a current version of it, the wider discussion of its constituent parts is dynamic. The body of opinion on key elements, such as selection and appropriate use of climate scenarios or use of Paris-alignment metrics, is not where it was even a year ago. The LGPS is also better placed to use its combined resources, through bodies like SAB and other collaborative networks, to take forward an approach that can include all the England & Wales funds that is not just catching up to the disclosure standard set for the rest of UK pensions, but can make an additional contribution to UK climate goals.

4.0 FINANCIAL IMPLICATIONS

4.1 The consultation includes a requirement for administering authorities to take proper advice (from appropriately qualified individuals). There is also a cost for obtaining and calculating the data required for climate risk reporting. The Fund has been working with its pooling partners to minimise duplication and mitigate costs as far as possible. Even without the requirement for TCFD reporting, the Fund considers much of the data requirements necessary from an investment risk management perspective.

5.0 LEGAL IMPLICATIONS

5.1 Following the consultation, high level statutory guidance will be issued relating to the governance requirements and the Climate Risk report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The reporting requirements will place additional demands on the Fund in relation to the oversight and management of Governance, Strategy, Risk Management, Metrics & Targets at a fund and pool level. These will be assessed and, where quantifiable, included in the subsequent report to Pensions Committee.

7.0 RELEVANT RISKS

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties. The assessment, management and reporting on climate-related risks is an essential part of the Fund's governance of risk and it is important that appropriate guidance is issued.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Fund is consulting with its pool partner funds.

9.0 EQUALITY IMPLICATIONS

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 As set out in the report. The NLGPS has a Responsible Investment policy which explicitly addresses environment and climate implications as financially material to the long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

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APPENDICES

Appendix 1 Report to Pensions Committee
Appendix 2 & 3 Responses from LAPFF and SAB.
Appendix 4. NLGPS joint response.

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.

BACKGROUND PAPERS

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

SUBJECT HISTORY (last 3 years)

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

WIRRAL

PENSIONS COMMITTEE

14 DECEMBER 2022

REPORT TITLE:	**CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS IN THE LOCAL GOVERNMENT PENSION SCHEME**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report informs Members of Merseyside Pension Fund's (MPF) response to a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) seeking views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

RECOMMENDATION/S

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The consultation was issued on 1 September which only provided time for a briefing report to be prepared for September's Committee. As an important area of policy, it is important that Pensions Committee is informed of the Fund's final response.

2.0 OTHER OPTIONS CONSIDERED

2.1 The option not to respond to the consultation was considered but was dismissed in view of the materiality of the subject matter and the implications of the anticipated requirements on LGPS funds.

3.0 BACKGROUND INFORMATION

3.1 Members were informed of the consultation at September's Committee and it was recommended that responses should be prepared in respect of the Northern LGPS Investment Pool (NLGPS) and for the Fund. Since that time, officers of the Fund have been working with their pooling colleagues to agree a response on behalf of NLGPS. That response refers to responses from the Local Authority Pension Fund Forum (LAPFF) and National LGPS Scheme Advisory Board (SAB) which are attached at appendix 1. Having discussed the joint response with the Chair, it was felt unnecessary for a separate response to be prepared on behalf of MPF. The Pool's response is attached at appendix 2.

3.2 In the interests of brevity, the response makes reference to consultation responses from LAPFF and SAB and is generally supportive of the proposals. Of particular note is our view that further delay at this point would be unhelpful and should be cautioned against, for reasons already outlined in the LAPFF and SAB consultation responses that NLGPS is endorsing. The LAPFF response includes the observation that the consultation document is vague about the scope and timeline for DLUHC to produce detailed and technical statutory guidance to support LGPS in applying the future regulation.

3.3 This is an area where best practice is still evolving. The TCFD framework is itself a work in progress and, while DLUHC's proposals are based on a current version of it, the wider discussion of its constituent parts is dynamic. The body of opinion on key elements, such as selection and appropriate use of climate scenarios or use of Paris-alignment metrics, is not where it was even a year ago. The LGPS is also better placed to use its combined resources, through bodies like SAB and other collaborative networks, to take forward an approach that can include all the England & Wales funds that is not just catching up to the disclosure standard set for the rest of UK pensions, but can make an additional contribution to UK climate goals.

4.0 FINANCIAL IMPLICATIONS

4.1 The consultation includes a requirement for administering authorities to take proper advice (from appropriately qualified individuals). There is also a cost for obtaining

and calculating the data required for climate risk reporting. The Fund has been working with its pooling partners to minimise duplication and mitigate costs as far as possible. Even without the requirement for TCFD reporting, the Fund considers much of the data requirements necessary from an investment risk management perspective.

5.0 LEGAL IMPLICATIONS

5.1 Following the consultation, high level statutory guidance will be issued relating to the governance requirements and the Climate Risk report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The reporting requirements will place additional demands on the Fund in relation to the oversight and management of Governance, Strategy, Risk Management, Metrics & Targets at a fund and pool level. These will be assessed and, where quantifiable, included in the subsequent report to this Committee.

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 duties. The assessment, management and reporting on climate-related risks is an essential part of the Fund's governance of risk and it is important that appropriate guidance is issued.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Fund is consulting with its pool partner funds.

9.0 EQUALITY IMPLICATIONS

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 As set out in the report. The NLGPS has a Responsible Investment policy which explicitly addresses environment and climate implications as financially material to the long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Appendix 1 & 2 Responses from LAPFF and SAB.
Appendix 3. NLGPS joint response.

BACKGROUND PAPERS

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

SUBJECT HISTORY (last 3 years)

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

Scheme Advisory Board (SAB)

Department for Levelling Up, Housing and Communities

Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

LGF Pensions Team, DLUHC
2nd Floor
Fry Building
2 Marsham Street
London SW1P 4DF

LGPensions@levellingup.gov.uk

Response to consultation

This response is submitted on behalf of the Local Government Pension Scheme Advisory Board (England and Wales) which is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

The Board's purpose is to:

- Provide advice to the Secretary of State and to administering authorities on "the desirability of changes to the scheme" and "in relation to the effective and efficient administration and management" of the LGPS
- Provide a framework to encourage best practice, increase transparency and coordinate technical and standards issues across the sector

Membership of the Board includes equal number of voting members representing employers and employees. The Board is also supported by non-voting members and advisors.

There are around 18,000 employers participating in the Scheme and therefore there are representatives of some of the larger employer groups (further/higher education institutions and academy schools) on the Board and its sub-committees.

Secretariat services are provided by the Local Government Association and separate Advisory Boards have been established for the LGPS in Scotland and in Northern Ireland.

This response was compiled by the Board Secretariat in consultation with members of the Board's Responsible Investment Advisory Group.

Yours sincerely,

Cllr Roger Phillips
Chair of the Board

Scheme Advisory Board (SAB)

Response to consultation questions

Preliminary remarks

Before moving onto the consultation questions the Board would like to make some general observations on this important policy area.

Timing of Consultation

The Board is fully in sympathy with the need to catch up with the requirements in the private sector and some funds have already been voluntarily producing reports in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) requirements. In many ways it is a shame that the LGPS requirements are behind DWP's climate risk reporting regulatory framework, as it could give the impression that LGPS funds are less engaged in making sustainable investment choices, which is far from the case. For example, the Environment Agency's Fund is seen as particularly advanced in this area.

Given that there has been this lag, the Board would like to see the Government publish a summary of the learning from the first round of TCFD reporting in the private sector. That should include any work done by DWP with TPR on compliance issues.

Role of Pension Funds

The Board recognises that as the largest funded defined benefit scheme in the UK, and one of largest sources of global capital, the Local Government Pension Scheme has an important role to play in the transition to a net zero economy. It believes that stakeholders across the Scheme will endeavour to play their role to the fullest extent and with enthusiasm.

However, its role as an institutional investor is quite limited in comparison with the impact which national government policy can have. While pension funds can and should declare their climate strategy and impact, there is a need for government policy to be fully aligned on these questions. Pension funds would find it much easier to make good environmental investment choices if the regulatory and tax policy incentives were also aligned with them.

In line with the "polluter pays" principle, the Board believes that the Government should consider the broad range of its powers to put in place an effective tax and investment incentive regime. That should have the aim of ensuring that organisations that are causing emissions are responsible and pay for the full environmental cost of their actions. Related to that, we would like to see further development of policies which allow negative externalities to be better incorporated into decision making such as a carbon pricing system, which would do much to reduce the tension between pension funds' primary obligation (to seek returns) and their strong desire to improve environmental performance.

The Board feels that in a sense it is putting the cart before the horse with these proposals by nudging funds towards making changes in their investment decisions, before those other policy levers have been deployed to support those decisions. However, the Board fully supports the development of a regulatory regime for the LGPS around climate risk reporting.

The fiduciary duty and investment choices

To develop that a little further, the Board notes that as with DWP's climate risk reporting regime, which is largely replicated in this consultation proposal, the proposals essentially institute a reporting and monitoring framework. The reporting of metrics and indeed any

targets set are not binding and do not of themselves drive the decisions of a pension committee on investment. The consultation states, “the urgency of climate change means that administering authorities cannot wait until they have ‘perfect’ data before they start putting it to use.” The “use” to which this data is put is clearly to drive more sustainable investment choices and to improve transparency.

We therefore believe that this policy is intended to be a “nudge” for pension funds. In order to be fully effective, the Government should be clear about this, align policy levers (as stated before) and clarify whether its intention is that these proposals should help to reshape the contours of the fiduciary duty. We note that the Advisory Group on Finance (AGF) that was formed by the Climate Change Committee stated in its report on the road to Net Zero in finance that, “To be successful, it will be crucial to ensure that these and other regulatory measures drive changes in fundamental behaviour rather than simply narrow compliance.”

The Board agrees that climate change risk (whether physical or technological) will in many cases be financially material and so, in terms of the Law Commission’s analysis, should be taken into account by all funds where relevant. However, there will be occasions where this materiality is not so clear and funds will want to make choices which do not necessarily maximise returns but do support important climate goals. It is recognised that LGPS funds are free to do this where it does not cause “significant financial detriment”, and where they can justifiably believe that scheme members would support that approach.

However, where we feel the fiduciary duty might require some further clarification on is the extent to which the pursuit of carbon or temperature reduction targets may justify investment choices that entail some element of financial detriment – compared to the counter factual – and how that should be determined. If the intention is not that targets should exert some influence on investment choices, then their value would be greatly reduced.

Also, Government guidance would help clarify the application of the Law Commission’s advice in an LGPS context, where the fiduciary duty is not limited to scheme members, but owed also to scheme employers and local tax-payers.

Also, it should be accepted that in a scheme that contains six million members there will be a multiplicity of views on climate change and investment choices. The Board notes that polling generally supports the view that the general public, and especially younger people (who are those joining the scheme now and who are most likely to be affected by investment choices taken in the future), very much support environmental considerations being taken into account. Guidance could helpfully clarify what actions funds could and should undertake if they wish to gauge member support for prioritising achievement of their particular climate targets.

The appropriate means to achieve the ends

The Board would also like to work with officials to develop best practice guidance on what changes in investment behaviour are most appropriate for funds. For example, there is generally a view that reductions in carbon emissions due simply to changes in asset allocation are less appropriate as a tool for meeting targets than those derived from reductions in carbon emissions associated with the same assets held over a period of time (either through engagement or technological change). This latter approach itself delivers a reduction in carbon emissions while the former potentially simply reallocates them within the

market. Guidance could also help funds decide to what extent they want to strategically deploy capital into climate adaptation technologies that are likely to unlock the path to a net zero economy more widely. These might be investments which stretch a fund's appetite for risk but again might enjoy the support of members and bring significant returns over time.

Given that LGPS assets totalled c£340bn at 31 March 2021, and with the widespread use of pooled or passive investment vehicles, there is also a question about whether it is realistic to try to differentiate the performance of the scheme in reducing carbon from the success of carbon reduction in the economy generally. Again, we come back to the point that national governments, ideally acting internationally, are the only bodies that can really help deliver net zero targets for large pension funds like the LGPS.

Compliance

The Board believes that there are already issues with compliance in relation to LGPS funds' production and publication of annual reports. Partly that is driven by reasons outside funds' control (around audit clearance in particular) but there do appear to be few checks and balances to ensure the timely production of reports, and that the content includes all elements required by statutory guidance. That issue may well occur again around the production of climate risk reports. The Board believes that some action does need to be considered by the Secretary of State, as the Scheme Authority in relation to reporting compliance. The Board would be willing to work with officials to work up some options for this, in consultation with other stakeholders.

There is also a question of who would judge whether funds have produced reports "as far as they are able". It seems sensible that an independent body should be asked to assess compliance with that requirement, if it is not to be treated as a "get out of jail" card.

Resourcing production of climate risk reports

As with any new function or responsibility, funds will want to consider what additional level of resources they may need to fulfil the requirements. That is likely to be both in terms of extra volume of work and the need to bring in additional expertise in certain areas. The Board believes that creating these reports will be very resource-intensive and will also require more training for committee members and officers.

DLUHC have stated that they were expecting the estimated cost of compliance to be similar to that which DWP has estimated for private sector schemes in its Impact Assessment for their equivalent Regulations (£14k). Based upon anecdotal experience of private sector schemes having already produced reports for year 1 of the DWP requirements, the Board feels that DWP's figure is likely to be an underestimate, and it would likely be many times that amount for an LGPS fund. The Board will look to facilitate joint working and procurement where possible, but many funds are already experiencing difficulties in recruiting and retaining adequately resourced teams.

Scheme Advisory Board (SAB)

Responses to specific questions

Question 1: Do you agree with our proposed requirements in relation to governance?

Yes, but as mentioned earlier, the Board would like the Government to draft guidance to clarify how these responsibilities are intended to relate to the over-arching fiduciary duty.

The consultation refers to the need for funds to have advisers who are “properly qualified”. Guidance would be helpful in determining what level of qualification the Government has in mind. Is there a standard or accreditation that can be pointed to, or even developed over time? The Board believes that it would be appropriate to have this provided for in guidance rather than on the face of the regulations. The statutory guidance to the Investment Regulations 2016 does refer quite generally to “proper advice”, but that is in relation to functions (selection of investments and investment managers) which funds have always undertaken and are well understood. This is a new function and so greater clarity on the expectation would be welcome.

The Board also believes that statutory guidance should spell out the expectation on local pension board members. We expect to engage with the Department on the way to formalise the knowledge and skills requirements of pension committee members as part of its response to our Good Governance recommendations.

Question 2: Do you agree with our proposed requirements in relation to strategy?

The Board felt that the language in the consultation document in this section was more around ongoing risk assessment than what it would understand as strategy. Indeed, the summary of this section and that on risk management are strikingly similar.

For the Board, strategy suggests an over-arching approach that endures over time and directs action in a range of circumstances. This is the sort of thing that might also be described as a transition plan. We understand that term to mean a time-bound action plan that clearly outlines how an organisation will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations. The Board notes that at COP26 the Government had said that transition plans would be mandated at some point.

Doing so will also allow funds to offer greater assurance that their targets are genuine and deliverable. There is also a question about whether climate campaigners will infer from the setting of a target that a plan to deliver it is legally required. There has been litigation already in the courts whereby failure to take action to achieve clean air targets has been ruled unlawful. This would be a concern for LGPS funds of course, but the Board believes that it is possible to mitigate the risk.

The Board feels that calculating and disclosing carbon emissions associated with assets will not by itself “encourage better pricing and capital allocation in markets”. The Board believes that LGPS funds need to recognise, in setting their strategies, that they are active participants in the market. Opportunities lie in quickly identifying the significant negative

externalities that are built into their existing holdings and acting to address them. Passively waiting for these externalities to be appraised is itself a major risk, both in relation to those holdings and future value in the market as a whole (as implied temperature rises are strongly inversely related to GDP growth).

The Board would also like to suggest that guidance on strategy or transition plans needs to take into account both the need for them to be very long-term (including commitments to action throughout the life-times of those members just joining the scheme) while at the same time recognising the urgency of taking significant steps towards net zero in the coming 7-8 years.

Related to this is the question above about the need for best practice advice on the approach which funds should take. That would cover the respective roles of divestment, engagement and strategic allocation of capital to key technologies which could unlock transition.

One key issue which is lacking in the consideration of strategy is time period. Some schemes define long term as 40 years. While this may appear long term for most of the scheme, for the purposes of climate change risk and given that it is irreversible it remains very short term. The profit will be extracted and the damage will be cause in the next decades and the consequences will be felt in the decades after. The government recognises that funds have a primary duty to their members to act in their best financial interests. Yet, assuming the possibility that an 18 year-old member of the LGPS reaches the age and is paid a pension as the oldest person alive today, incorporating climate change ought to require funds to consider a time period of up to 100 years into the future. A consultation on risk ought to require funds to investigate what investment decisions are required today to prevent total climate destabilisation during the lifetime of members of the LGPS to enable the LGPS to continue to pay their pensions. Indeed, the fact that funds do not currently undertake such analysis demonstrates a very real and currently existing legal risk that they will be challenged for investment behaviour in carbon intensive industry contrary to the best interests of their members not therefore in adherence with their fiduciary duty.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

The Board agrees that, while challenging, consideration of different scenarios is valuable in terms of bringing these reports to life. In terms of communicating with members, scenarios can have a valuable educational role as well.

Two or more scenarios do seem appropriate and we would suggest that scenarios other than the Paris-aligned one should be required to illustrate the effect of global temperature rises above 2° (since that now seems likely). In addition, we believe that these scenarios should not be limited but that funds should choose from a small, defined set of scenarios to ensure comparability between funds. The Board believes that a small set of plausible scenarios should be agreed and included in the statutory guidance, together with a presumption that pools should provide this expertise (see later comments on the roles of pools).

Question 4: Do you agree with our proposed requirements in relation to risk management?

The Board supports the proposals in this section and looks forward to seeing draft statutory guidance on how it is to be delivered. The Board believes that the key output of risk management is a programme of mitigations and believes that these should also be recorded and reported as part of the fund's climate risk report.

Question 5: Do you agree with our proposed requirements in relation to metrics?

The Board would preface its remarks on this section by noting that LGPS investments are extensive and diverse. LGPS funds invest in over 50 jurisdictions all around the world. Each of these jurisdictions has different standards and obligations of corporate reporting and transparency. In some cases, there will be no legal obligation on bodies in receipt of investment from LGPS funds to provide or even record this information. Accordingly, funds will need to make the provision of this data a condition of business which might affect both the reliability of the data received and the diversity of bodies that they are able to invest in.

The Board has considered whether the Department should try to impose greater consistency in the metrics on which data is to be compiled. However, on balance and at this point in time, it leans more towards retaining flexibility in target setting, use of metrics and scenario analysis. This should be reviewed as best practice solidifies; it is important to emphasise that flexibility is key, as this is an ever-evolving area.

The Board also agrees with the approach set out in the consultation, namely that at this early stage the regulations should be high-level with the specifics in statutory guidance.

The Board approves of the choice of the absolute emissions metric and the obligation to report separately each of scopes 1-3. In terms of the proposal in paragraph 71 for the Department to set a single methodology for attributing carbon emissions to investments, we would urge caution. It may be wise, at this stage, to allow for a range of methodologies to be used and for an evaluation of these to be done once they have been properly tested. Only at that point would the Board support moving to a single methodology, which has the merit of allowing for full comparability. However, we do not believe that there has yet emerged a single methodology which could be deemed to be the most appropriate.

The Board is also hopeful that the FCA, FRC and Accounting Standards Board will fulfil their roles in achieving accurate data reporting. Until there are agreed industry standards, it will be difficult to aggregate data from different sources.

The Board would also like to clarify the divergence between paragraph 90 and 134. Paragraph 90 talks about a "top-level figure" for each Scope of emissions being required, while paragraph 134 suggests that funds will report proportions that are verified, reported, unavailable or unknown. The Board understands better and would prefer the latter approach.

The Board agrees that there is no need for reporting to be done investment by investment. However, we would also suggest that funds report against these metrics separately by asset class and not just for the fund as a whole.

Scheme Advisory Board (SAB)

Question 6: Do you agree with our proposed requirements in relation to targets?

The DWP Consultation in October 2021 said that "An increasing number of UK occupational pension schemes are recognising these risks through the voluntary adoption of Net Zero targets: approximately 85% of defined contribution (DC) pension savers are now in a scheme with a Net Zero target. More than 10 of the UK's largest defined benefit (DB) pension schemes have also set Net Zero targets, including the two largest - Universities Superannuation Scheme (USS) and the BT Pension Scheme."

The Board is aware that many LGPS funds have not yet set a net zero target date. Those that have set targets have chosen quite different dates. Although the Board recognises the weaknesses of net zero target dates (and would argue that they are not meaningful without associated interim targets and transition plans), we believe that they are the common currency of public discourse and if such a date were missing from a report the public would find that hard to justify.

The Board acknowledges the compelling conclusion reached by the Committee on Climate Change advisory group on finance who have called for a net zero target to be the default for the UK financial system.1 In their 2020 report they state, "It is critical that net-zero becomes the default option for savings and pensions, with more sustainability linked products providing financial incentives for decarbonisation." They add, "Managing climate risks to financial assets is clearly necessary to deliver net-zero, but it is far from sufficient. Capital also needs to move at scale towards activities and assets that are enabling households, firms and public authorities to make net-zero a reality."

The consultation frames funds as being subject to climate change, rather than as contributing to climate change through the companies they are invested in. Although ESG considerations are incorporated into the policies of most funds, many remain risk averse, believing that because the primary purpose of the fund is to pay pensions any decisions that may lead to an impact on returns cannot be justified. The Board would emphasise again that there is a need for the Department to clarify that the fiduciary duty does permit such decisions to be made, and that they are in fact necessary in order to make tangible progress towards net zero targets.

Regarding paragraph 112, the Board understands that having a net zero target would not require a fund to divest from or invest in a particular investment, but it is hard to see how portfolios can be aligned with the targets set without some changes being made in investment choices.

Question 7: Do you agree with our approach to reporting?

The Board believes that there is a case for having different reporting timescales for different asset classes. While it is possible for funds to report reasonably credible data on equities (particularly listed equities) in their first climate risk report, data for other asset classes is not reliable and in some cases entirely missing. The Board believes that for reports to have some credibility, and for the analysis in them to be meaningful, reporting requirements for

[1] Finance-Advisory-Group-Report-The-Road-to-Net-Zero-Finance.pdf (theccc.org.uk)

different asset classes should come on board as they become credible. This would not prevent funds reporting sooner than required where that is possible but acknowledges the reality of the current position and allows some time for the relevant asset managers to improve the availability and credibility of their data.

As well as publicising the existence of reports to scheme members, we would like to see Regulation 61 (Statements of policy concerning communications with members and Scheme employers) amended to include specific reference to the administering authorities setting out a policy approach to communicating climate risk. Related to that, we believe that where any scheme employer has a substantial proportion of its staff eligible to join LGPS then funds should encourage them to put a link to that climate risk report on their website as well.

The Board would also like to suggest that the Department consider the role of Local Pension Boards in producing climate risk reports. For example, they might be asked to comment on a draft ahead of its publication as a means of testing how well it communicates the findings to an interested but not expert audience.

The Board notes that the consultation (at paragraph 6) suggests that there will be a further consultation on reporting standards, at a later date. Given that funds have little option but to rely on currently unverified reported data from further down the investment pipeline in compiling these reports, we would wish to put on record at this stage the Board's view that any auditing of these reports should be explicitly limited to whether it has been professionally assembled and not whether assurances can be given about the accuracy of all data reported.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

The Board are happy to take responsibility for the production of a scheme level report, which would include links to each of the fund reports. The Board does however note that initially their report is likely to be limited to a commentary on the work undertaken at fund level. There are data quality and consistency issues that may need to be resolved before conclusions can accurately be drawn about performance at the scheme level. Otherwise, the Board risks giving spurious credence to aggregated, and possibly largely estimated, data, which would undermine its own credibility. The Board believes that these data quality and consistency problems are very real and could take several years to resolve. As mentioned earlier, given that LGPS funds invest in so many jurisdictions we are likely to need international standards in place before reporting will be meaningful.

To do otherwise risks placing more weight on largely synthetic data than it can bear. The Board feels that its report could still add real value by commenting on the different approaches which funds have adopted and drawing attention to best practice and year on year improvements – especially around data quality.

In addition, what is proposed is an annual reporting obligation. That means that there is very little that can be reliably inferred from the data until there are sufficient data points to create some trend lines, which would show how effective different approaches have been in meeting the targets funds have set for themselves.

Scheme Advisory Board (SAB)

The Board again notes the reference in paragraph 137 to divestment as a means of reducing emissions. While divestment can be seen as a failure of engagement, the Board feels it is a necessary tool in a fund's armoury if it wants to engage seriously with companies and effectively change their behaviour. There are also likely to be some companies who are not willing to engage with funds in reducing their carbon footprint and are quite prepared to lose LGPS business as a consequence. In terms of pulling data in from funds to create a Scheme Climate Risk Report, the Board has already set up a working group that will look at the information that it is necessary to have. From that we will establish templates that can offer as frictionless a flow as possible from funds' own sources of data (through investment managers and pools, down to funds). This is important to minimise the burden on all parties and avoid data being lost or misinterpreted as it passes through the chain.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

As with climate risk reporting in private sector schemes, the reliability and comparability of the data is determined by the quality of what is received from investment managers. There is clearly a role for pools to leverage good practice from investment managers.

The Board believes that there should be a "pool first" presumption, i.e. that data would be collected and analysed by the pool unless there was good reason not to, which would help to standardise data collection and reporting. That could potentially be extended to cover all fund assets, and not just those held in or via the pool.

Pools would potentially have the market weight to set required methodologies, assumptions and reporting templates for investment managers to follow. Adoption of standardised templates for reporting has worked well in relation to the Board's Code of Transparency around investment costs, and it is possible that climate risk reporting could follow a similar path, but with pools leading discussions with those investment managers who were unwilling to provide climate-related data in a prescribed form.

As mentioned earlier, the proposals suggest consideration of "at least two scenarios where there is an increase in the global average temperature and in one of those scenarios the global average temperature increase selected by AAs must be within the range of 1.5 degrees Celsius above pre-industrial levels to and including 2 degrees Celsius above pre-industrial levels". The pools could set a standard set of scenarios for managers to use. The kinds of scenarios which have been proposed include "orderly transition", "abrupt, late transition" and "inadequate transition". These could be based on existing tools, such as those endorsed by DWP, that are already being developed to support the application of these scenarios.

Question 10: Do you agree with our proposed approach to guidance?

As mentioned earlier, the Board believes that the balance between what is in the regulations and what is in guidance seems appropriate and sensible. It is essential in an evolving area like climate science and reporting that flexibility is available to adapt and adopt whichever methods gain the most traction and have the most impact. This would naturally mean less prescriptive requirements in regulations, supported by statutory guidance that is easier to amend.

However, we would ask that the Department is clearer on who is responsible for producing which part of the guidance and that there are realistic timelines to provide this. The Board would also appreciate a statement on what the expectations of funds are should that guidance not be available from when the duties come into force. The Board is happy to work with the Department on what such a statement could helpfully say. The Board would also welcome a commitment from the Department for this guidance to be reviewed at defined points in the future, and then regularly, as practice in this space is fast evolving.

There is a reference in paragraph 145 to the Board having been asked to produce “detailed operational guidance”. For the record, the Board is happy in principle to do this once the policy has been consulted on and settled, but as far as we are aware we have not yet been asked to draft guidance on any specific element of these proposals.

It should also be noted that the Board secretariat will need to be resourced and funded sufficiently to undertake the significant additional tasks that the climate risk reporting framework for the LGPS will bring with it. This will mean an increase to the levy paid by funds towards the Board’s costs, which comes out of the pension fund monies.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

The Board feels that more work is needed to explore further what expert insights are available to shape LGPS reports. This should be done collectively, involving the Board.

The Board also feels that given LGPS’ scale, there is an opportunity here to partner with some of the UK’s universities and leading climate scientists to do some work that is market-leading and truly excellent. Such a collaboration could potentially generate valuable expertise and products that the rest of the investment sector would want to use.

Also motivating this suggestion is the Board’s concern that the market for expert climate advice is variable in quality, and immature. The Board is waiting to see what standards emerge, but until government or industry regulators have settled that, there is a real risk that procurement by individual funds would lead to low value for money outcomes.

The consultation recognises that existing investment consultants and advisers working with LGPS funds will need to be able to demonstrate additional expertise. Again, the development of industry standards is critical to ensuring that the risks and opportunities presented by climate change are understood and effectively responded to.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

The Board believes that it is important that LGPS funds’ transition plans recognise the need to support a just transition. The Board feels that this should be a strand in the best practice advice that was referred to earlier. While having regard to protected characteristics in law would only apply within the UK, the Board feels that it is important that LGPS investment policies support development goals related to equality and human rights considerations globally, as well as domestically.

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Date: 14 November 2022

Response to DLUHC's Consultation "Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks"

Background

- The Local Authority Pension Fund Forum was set up in 1991 and is a voluntary association of 86 local authority pension funds and six LGPS pool companies, based in the UK with combined assets of approximately £350 billion. It exists to promote the investment interests of the funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.

Response

The Local Authority Pension Fund Forum (hereafter LAPFF or the Forum) welcomes the opportunity to respond to this important consultation given its impact on our members.

LAPFF has long recognised the imperative to address climate change as a systemic and long-term investment concern for our members. It poses material financial risks across all asset classes with the potential for loss of shareholder value.

Achieving a just transition to a net zero economy cannot be achieved by companies or investors alone. It also requires government action to raise standards across the piece. With the provision of a clearly identified legislative framework on carbon reductions, companies and investors will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonisation of the economy that are needed.

The Forum therefore has been a strong and consistent supporter of the introduction of mandatory carbon emissions and risk reporting. The Forum has long promoted mandatory climate risk reporting for companies and that such reporting is required throughout the investment chain. LAPFF supports the recommendations of the Financial Stability Board's Task Force on Climate-

related Financial Disclosures (TCFD) report and considers all market participants should be encouraged to aim for the fullest relevant implementation. The Forum itself produced a climate change investment policy framework in 2017, based on TCFD, to help members integrate climate into investment decisions and reporting.

As LAPFF noted when responding to the DWP consultation on TCFD, action is needed across the board. However, smaller funds have more limited resources and may be less advanced in their approach. The Forum agrees that all funds should report against TCFD. However, LAPFF would recommend that proposed guidance includes specific sections for smaller funds, especially with regard to metrics and scenario analysis. LAPFF would also suggest that smaller funds (below £0.5bn threshold) regulated by DWP are required to report against TCFD rather than LGPS being treated differently. The impact of greenhouse emissions is the same whether assets are owned by a private fund or one part of the LGPS.

There also seems to be misalignment between government objectives and regulation regarding scenario analysis. Clearly it would be unfair and inconsistent to have different obligations for LGPS funds than to issuers or occupational pension funds regulated by the DWP. It would, however, appear sensible to have alignment with government policy regarding scenarios. Achieving net zero by 2050, as enshrined in the UK Climate Act, implies a 1.5 degree rise rather than 2 degrees and therefore requirements should focus on this figure. As such, LAPFF would encourage government, its departments and its agencies, to adopt 1.5 degrees as the required benchmark for all issuers, asset managers and asset owners. Not doing so creates financial and investment risks associated with government policy pushing for 1.5 degree reduction but disclosures judged against a 2 degrees standard.

Finally, while LAPFF supports TCFD reporting, an area of concern is the oversight of the social implications of the transition within the TCFD framework. Failing to consider the impact of the transition on workers, communities, supply chains and consumers carries financial risks. These include opposition to climate action which will slow the pace of the transition (economy-wide and for individual companies). There are also specific issues around skills, employment standards and human rights, which create legal and operational risks as well as reputational ones. Alongside the risks there is considerable opportunities to improve social outcomes which can help support economic and financial stability. LAPFF would recommend that issues around the just transition are included within the government's approach to TCFD regulation.

The rest of this response is focused on the specific questions outlined in the consultation document.

Detailed response

Question 1: Do you agree with our proposed requirements in relation to governance?

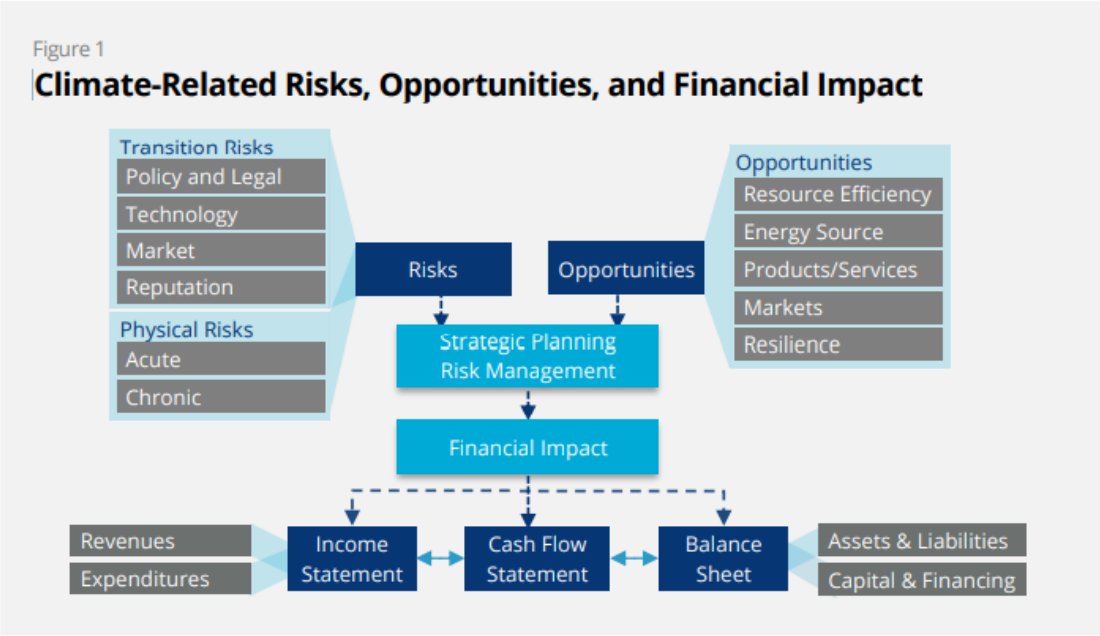
The Forum agrees that ultimate governance responsibility lies with administering authorities. As legislation clearly states scheme managers of administering authorities are responsible for managing and administering the scheme. This includes accountability for policies, strategies and risk management of the fund. In most cases, the scheme manager role is delegated to a pensions committee. As such, LAPFF would agree that the scheme manager has ultimate responsibility for climate change risk as it does for other financially material environmental, social, and governance factors. In addition, for the purposes of TCFD reporting, LAPFF would agree that the scheme managers (i.e. largely pension committees) have the same accountability function as the board of a private occupational pension or company. Therefore, it follows that scheme managers should have overall responsibility for oversight of climate risks.

As would be expected, and as highlighted in the consultation document, work will be undertaken by officers and external consultants. As part of the oversight function of the scheme manager, it would be expected that fund staff and external consultants' activities are scrutinised. LAPFF therefore agrees that processes should be established to ensure that those undertaking climate-related governance activities on their behalf are doing so effectively.

This approach is in line with LAPFF's framework for its members. LAPFF's suggested/template wording on climate-related governance, which was produced with TCFD recommendations in mind, is:

"The pension committee has responsibility for the direction of policy and the committee will have access to expert advice and have members with appropriate skills and knowledge. Responsibility for the implementation of this policy lies with the Fund's head of pensions and is adequately resourced. Regular monitoring of reports and impact assessments of policy implementation will be presented to the Committee and to the Local Pension Board."

Although LAPFF broadly agrees with the TCFD approach, a significant oversight of the framework are social risks associated with the transition. Looking at the below risks and opportunities diagram within the TCFD 2017 report, it is apparent that there is a glaring omission: people.



Source: TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

LAPFF would therefore strongly recommend that the government's TCFD requirements for companies and investors include consideration of the social risks and opportunities of the transition. The failure to consider the impact on workers, communities, supply chains and consumers risks creating hostility to climate action and therefore slowing the pace of the transition. This includes issues around skills required for the transition, human rights in the supply chain (not least sourcing of transition minerals), employment and health and safety standards in new industries and the impact of the transition on communities. This all creates legal and operational risks as well as reputational ones. LAPFF would recommend that this oversight is addressed and that components of a just transition are included within the risks and opportunities framework (and throughout the other pillars) of TCFD reporting. This is not only the view of LAPFF, but other investors are expecting companies to consider these issues. This includes the 'Financing a Just Transition Alliance' and also Climate Action 100+ (CA100+) whose benchmark has a just transition element.

Question 2: Do you agree with our proposed requirements in relation to strategy?

The Forum agrees with the approach to strategy outlined in the consultation. Specifically, that short, medium and long-term risks and opportunities are identified; and that administering authorities assess the impact of the risks and opportunities. LAPFF also agrees that this assessment is considered at the same time as other strategies.

LAPFF's climate framework states that 'climate change will impact all asset classes over the lifetime of the fund. As a result, many assets will be re-priced.' It also suggests in respect of timing that 'appropriate responses to the investment challenge of climate change are evolving rapidly' suggests that funds considering committing to reviewing their strategy and policy 'every three years or otherwise as in line with the investment review cycle.'

It is welcome that statutory guidance may be provided to aid funds. LAPFF's policy framework suggests a number of ways that climate change considerations can be integrated into fund's investment strategies (this includes areas covered in the consultation and under the different TCFD strands), such as:

- Asset allocation: considering alternative investment strategies to manage the risk and opportunities of climate change
- Investment management oversight
- Use of scenario analysis: to assess the relative performance under different scenarios
- Climate-related investment opportunities: cognisant of the fact these are often different in nature and are often found in private markets creating asset allocation implications due to the illiquidity and complexity of some of these classes
- Risk management: including integrating climate change into risk management processes and monitoring metrics
- Company engagement: using shareholder rights to engage directly, through third parties and collaboratively and using voting activity to change company behaviour and manage climate risks
- Public policy engagement: engaging with policymakers to address policy failures and provide the right policy framework for the transition to net zero.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Scenario analysis is an important part of managing climate risks.

However, LAPFF does have concerns regarding the benchmark scenario that government has set for occupational pensions regulated by DWP and the FCA rules for issuers, and now under the current DLUHC proposals. Clearly it would be unfair and inconsistent to have different obligations for LGPS funds. However, LAPFF would like to use this opportunity to recommend a

government-wide approach of one analysis having to be undertaken for a 1.5 degrees scenario.

There is now a broad consensus around the need to achieve temperature rises of no more than 1.5 degrees, particularly following publication of the Intergovernmental Panel on Climate Change (IPPC) special report into the impacts of global warming of 1.5 degrees in 2019, and subsequent reports in 2021 and 2022. The 2019 report outlined the significant climate change impacts to ecosystems with serious implications for society. These impacts could be substantially reduced by limiting global warming to 1.5 degrees rather than 2 degrees.

Requiring one scenario to be for 1.5°C warming limit would bring the requirement closer to the UK government's commitment to reduce greenhouse gas emissions by at least 100% by 2050, enshrined in the 2019 Climate Change Act. This includes legally-binding 'carbon budgets over five-year periods. the IPPC stated that 'Limiting warming to 1.5°C implies reaching net zero CO2 emissions globally' around 2050 and concurrent deep reductions in emissions of non-CO2 forcers, particularly methane (high confidence).' The objective of limiting warming to 1.5 degrees was also the clear message from the UK government after COP26 in Glasgow. Using 2 degrees would therefore seem to undermine the ultimate objective of UK policy and would create transition risks for asset owners if they are not considering the ultimate objective of UK policy (i.e. regulatory risks). Subsequent IPCC reports are clearer on the required limits in terms of the overall carbon budget. The IPCC's sixth assessment report[1] (2021) showed that for an 83% chance of limiting warming to 1.5°C[2] the world can only add another 300 GT of carbon in total to the atmosphere from the beginning of 2020. Global carbon emissions in 2020 and 2021 were 32 GT and 36.3 GT respectively[3]. Therefore, at the current emissions rate, the global carbon budget could well be used up by 2030. The most recent IPCC working group report (2022)[4] indicates that limiting warming to around 1.5°C requires global greenhouse gas emissions to peak before 2025 at the latest.

As outlined in the consultation document, data quality and missing information creates considerable challenges. Statutory guidance on scenario analysis would therefore be welcome. As would greater compulsion of companies to disclose emissions data and their own scenario analyses.

Question 4: Do you agree with our proposed requirements in relation to risk management?

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[1] Sixth Assessment Report (ipcc.ch) (2021)
[2] Summary for Policymakers (ipcc.ch) (see page 29) (2021)
[3] https://iea.blob.core.windows.net/assets/c3086240-732b-4f6a-89d7-db01be018f5e/GlobalEnergyReviewCO2Emissionsin2021.pdf
[4] IPCC_AR6_WGIII_SPM.pdf

The Forum agrees with the proposed requirements on risk management. LAPFF's framework suggests that funds consider integrating climate change into overall risk management processes. The framework suggested that funds:

- include climate related financial risk on its risk register;
- monitor the scheme's carbon intensity;
- monitor policy dialogues for early indicators of change; and
- increase internal awareness of publicly available climate change scenarios and other risk analysis tools.

Question 5: Do you agree with our proposed requirements in relation to metrics?

LAPFF supports the reporting of scope 1, 2, and 3 emissions for the fund's assets. This is a central expectation that LAPFF makes of companies when disclosing greenhouse gas emissions. The Forum also expects companies to disclose emissions data by total emissions and emissions intensity.

Where LAPFF would raise concerns is regarding the 'comply or explain' regulations for issuers. Failing to make it mandatory for companies is likely to place undue and unnecessary costs on funds. As companies will have more granular detail of their operations, it also runs the risk of inaccurate information or funds obtaining data 'as far as they are able' with gaps in information. This will ultimately undermine regulation which is seeking to address systemic market risks associated with climate change and the transition to a decarbonised economy. As the FCA review has highlighted, a significant minority of *premium* listed companies are failing to provide details on metrics (and targets).[5] LAPFF experience of engaging companies is that information on Scope 3 emissions is frequently omitted. Therefore, LAPFF would recommend greater compulsion for issuers.

Leaving aside FCA regulation, as the consultation notes, gaining emissions data will not be straightforward (this is likely to be particularly challenging in private markets and overseas markets with few requirements to report emissions). This may cause specific challenges to smaller funds with more limited resources. As LAPFF's response to a 2020 DWP TCFD consultation noted the DWP's proposed staggered approach to implementing TCFD requirements was appropriate. LAPFF would recommend that while TCFD duties are introduced that the future guidance referred to in the consultation document provides specific guidance for smaller funds with fewer resources.

LAPFF agrees with the inclusion of the Paris Alignment Metric. LAPFF seeks to ensure companies are Paris aligned and it is an important indicator of transition

[5] FCA, Review of TCFD-aligned disclosures by premium listed commercial companies (2022)

risk. However, LAPFF would recommend that the wording on metric 4 is revisited and would suggest that getting the guidance right will be particularly important for this metric. On the wording, Paris aligned and net zero by 2050 can be two different metrics, the first implies seeking to be aligned with a 1.5 degree scenario with interim reductions of emissions being met. The second implies being net zero *at or by* 2050. This could be Paris aligned but equally it could be achieved with significant delays to emissions reductions which results in temperatures exceeding 1.5 degrees. LAPFF would therefore recommend greater clarity about what is meant by these terms to avoid any confusion or misreporting. Effective guidance will undoubtedly help in this regard. However, it will be important that this guidance ensures that there is transparency about inputs used for alignment measures and consistent methodologies.

Question 6: Do you agree with our proposed requirements in relation to targets?

LAPFF agrees that funds should set targets and measure progress against these targets. This is in line with LAPFF's climate investment policy framework. LAPFF's framework recommends that funds report progress in their annual report and accounts and these are aligned to TCFD metrics where possible. LAPFF also recommends that engagement work with investee companies is also noted as part of meeting targets. LAPFF's policy remains that divestment does not make a problem disappear (including emissions) and that engagement is a valuable tool in reducing investment risk. LAPFF's policy framework also suggests measurable targets are reported including: 'climate related training, analysis of climate risk across the portfolio, addressing climate risk with asset managers and on asset allocation, including climate-related investment opportunities across asset classes.'

Question 7: Do you agree with our approach to reporting?

LAPFF agrees with the reporting approach, including having an annual Climate Risk Report.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

LAPFF supports the *principle* of having a Scheme Climate Risk report. The value of the report will be in its accuracy. Great care will be needed regarding metrics and data, something alluded to in the consultation document. This includes the risk of unfair or inaccurate comparisons between funds and the scheme report because of different methodologies.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

As noted in Question 1, administering authorities are ultimately responsible for a fund's strategy, policies and assets. This role cannot be outsourced to external consultants, asset managers or pools. However, LAPFF agrees that the pools will play an incredibly important role. Pools will be critical in supporting funds in meeting their climate targets and managing climate risks. They will also be a major source of information and advice to enable administering authorities to meet their TCFD requirements. As noted in the consultation document, pools are already providing climate information and as they are required to report under FCA regulations this can evidently help prevent duplicate work.

Where LAPFF would be more cautious is regarding the wording in paragraph 144. The pooling process should happen in the best interest of administering authorities whose fiduciary duty is to beneficiaries rather than driven by crude cost savings on TCFD reporting.

Question 10: Do you agree with our proposed approach to guidance?

LAPFF agrees that there should be statutory guidance to accompany the regulations. Guidance is needed to support administering authorities and ensure consistency in approaches. There is no reference to consultation on proposed guidance. LAPFF would not support the approach to guidance if it was imposed without consultation.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

LAPFF agrees with the proposed approach to knowledge, skills and advice. As LAPFF's climate investment policy framework recommended, scheme managers (in most cases pension committees) should have members with the appropriate skills and knowledge, should set expectations on training and ensure committees have access to expert advice.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

As noted, the transition to a decarbonised economy carries with it social risks. This includes risks to workers, communities, supply chains and consumers. Some protected groups are likely to be disproportionately affected, especially regarding employment impacts and as consumers. These impacts are widely accepted, including within the HM Treasury's Net Zero Review: Analysis exploring the key issues (2021). While the impact of TCFD requirements for LGPS funds alone is unlikely to have a significant impact, the objective of the

cross departmental push towards TCFD requirements is intended to support the decarbonisation of the economy. As such, TCFD requirements if effective may have some negative impacts on protected groups. To address the negative impacts, LAPFF would recommend that TCFD requirements include social considerations within the framework and more broadly that governments, investors and companies are committed to a just transition.

NorthernLGPS
The Collective Asset Pool for Greater Manchester
Merseyside and West Yorkshire Pension Funds

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24 November 2022

Dear Sirs,

Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

The Northern LGPS welcomes the opportunity to respond to this consultation and fully supports the Government's proposal to mandate reporting by each LGPS Administering Authority in line with the Taskforce for Climate related Financial Disclosures (TCFD) framework.

We are delighted to report that each Administering Authority within the Northern LGPS has already voluntarily reported under the TCFD framework. Links to each statement are provided below.

ApproachToClimateRisk.pdf (gmpf.org.uk)

ra2021finalpol_d.pdf (mpfmembers.org.uk) p32

tcfd-report_v5.pdf (wypf.org.uk)

The Northern LGPS has also signed up to the Net Zero Asset Owner initiative, which has involved the setting of a medium term carbon reduction target (which we would specifically endorse in relation to Question 6 of the consultation) and a medium term target for increased investment in climate solutions. We are excited to find investment opportunities from the energy transition that meet our fiduciary duty to generate returns. A central pillar of this approach is GLIL, through which we invest directly in core infrastructure. To date, we have invested in onshore and offshore wind farms, solar, battery storage and smart meter assets. Further details are available at p60 of the following link.

IIGCC-10-2022-PAAO-Disclosures-v5.pdf (parisalignedinvestment.org)

Whilst wholeheartedly supporting the Government's desire to see increased transparency and reporting, we believe that this should not distract from the urgent action required on the part of all governments around the world to enact legislation to regulate for a reduction in carbon emissions. We note that the World Bank recently reported that less than 22% of global GHG emissions are covered by a carbon pricing instrument, and that for the majority of those emissions covered, the carbon price remains far below the level required to meet the goal of the Paris Agreement. Coordinated action on the part of governments can provide the legislative backdrop that would unlock the investment required to finance the energy transition, including from pension funds like ourselves.

The above is consistent with calls made for a number of years by the Institutional Investor Group on Climate Change (of which all Administering Authorities within the Northern LGPS are members).

Northern LGPS co-signed the Global Investor Statement to Governments on the Climate Crisis, which asks governments to raise their climate ambition and implement robust policies. Northern LGPS has called upon Government to urgently undertake the following five actions:

1. Strengthen Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C.
2. Commit to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps.
3. Ensure ambitious pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans.
4. Ensure COVID-19 economic recovery plans support the transition to net zero emissions.
5. Commit to implementing mandatory climate risk disclosure requirements.

The Northern LGPS firmly believes in the power of collaboration. In terms of detailed responses to the consultation questions, we formally endorse the consultation responses of two collaborative bodies that we are actively involved in, the Local Authority Pension Fund Forum and the LGPS Scheme Advisory Board, whose response was prepared by the Responsible Investment Advisory Group. Links to each response are provided below.

LAPFF-Response-to-DLUHC-LGPS-Climate-Change-Risks-Governance-and-Reporting.pdf (lapfforum.org)

221012_DLUHCClimateRiskReportingconsultation_SABresponse.pdf (lgpsboard.org)

The collaborative forums identified above are an invaluable resource of technical and practical knowledge and we are sure will play a vital role in shaping statutory guidance. We look forward to continuing to work with these bodies to advance the LGPS' understanding of climate risks and opportunities and to play our part in investing for a Just Transition. The climate emergency warrants urgent action and the proposed timeline for mandatory reporting set out in the consultation is necessarily short. We would urge the Department to make every effort to expedite the passing of regulations by the target date of April 2023.

Yours sincerely,

Councillor Gerald P Cooney

Chair of the Northern LGPS

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