

# Merseyside Pension Fund Report & Accounts 2020/21





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# Management Structure At 31 March 2021

## Administering Authority

Wirral Council

## Member Representatives:

Roger Irvine

Donna Ridland

Patrick Moloney

**Active Members**

**Active Members**

**Deferred Members**

## Pension Fund Management Committee

### Chair:

Cllr Pat Cleary

Wirral

### Vice Chair:

Cllr Cherry Povall, JP

Wirral

Cllr Chris Carubia

Wirral

Cllr George Davies

Wirral

Cllr Steve Foulkes

Wirral

Cllr Andrew Gardner

Wirral

Cllr Adrian Jones

Wirral

Cllr Tony Jones

Wirral

Cllr Brian Kenny

Wirral

Cllr Les Rowlands

Wirral

Cllr Jayne Aston

Knowsley

Cllr Ian Byrne

Liverpool

Cllr Pauline Lappin

Sefton

Cllr Michael Bond

St Helens

## Employee Representatives (Non-voting)

Roger Bannister

UNISON

## Officers of the Fund

Peter Wallach

Director of Pensions

Yvonne Murphy

Head of Pensions

Administration

Colin Hughes

Group Solicitor

Donna Smith

Head of Finance & Risk

Shaer Halewood

Director of Finance &

Investments

## Advisors to Investment Monitoring Working Party

Director of Pensions

Senior Portfolio Manager

Aon Hewitt

Mr R Worrall

Mr P Watson

## Advisors to Governance and Risk Working Party

Director of Pensions

Head of Pensions Administration

Head of Finance and Risk

## Others

### Auditor

Grant Thornton

### Bankers

Lloyds Banking Group

### Consultant Actuary

Mercer HR Consulting

### Strategic Investment Consultant

Aon Hewitt

### Custodian of Assets

Northern Trust

### Responsible Investment Advisors

Pensions and Investment Research

Consultants Ltd

### Property Advisors

CBRE Capital Advisors

### Property Managers

CBRE Asset Services

### Property Valuers

Savills

### Performance Measurement

Northern Trust

### Solicitor

Wirral Council

### AVC Providers

Utmost Life

Standard Life

Prudential

### LGPS Investment Pool

Northern LGPS (with GMPF and WYPF)

## 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

# Chair's Introduction

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



## The Overall Aim of the Fund

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

## Investments and Performance

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

Last year's report was written at a time when asset markets were starting to rebound strongly, as unprecedented liquidity injections were provided by major central banks and huge fiscal support from governments. This support was sustained throughout 2020 as the relaxation of COVID-19 restrictions over the summer were reversed with further lockdowns in the UK and in many other countries. The positive fillip to markets from the

successful development of more than one vaccine meant that financial markets finished very positively. For the twelve months, the Fund increased in value by over 15% even allowing for the £350m disbursed in pension payments.

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

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

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

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

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

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

## Communication with Fund Employers and Members

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

## Past Changes and the Future

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

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

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

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

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

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

## Preparation of Report

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



**Councillor Pat Cleary**  
Chair, Pensions Committee  
June 2021

# Management Report

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## Management of the Fund

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

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

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

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

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

The Council has signed a memorandum of understanding with the administering authorities

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

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

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

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

## Risk Management

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

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

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

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

Copies of these documents and more are available from the Fund and are published on the Fund website at: [mpfund.uk/risk](https://mpfund.uk/risk)

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

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

## Knowledge and Skills

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

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

## Activity in Year

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

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

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

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

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

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

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

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



# Pension Board Report

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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](http://mpfund.uk/lpbterms)

## Executive Summary

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

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

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

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

## Board Changes

There were no Board changes.

## Issues considered by the Pension Board 2020 - 2021

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

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

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

## Pension Board Work Plan 2021 - 2022

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

## Pension Board Attendance Record 2019-20

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



## Training & Events Record 2020-21

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

## IMWP & GRWP Attendance Record 2020-21

| IN ATTENDANCE              | IMWP   | IMWP   | GRWP   | IMWP   | GRWP   |
|----------------------------|--------|--------|--------|--------|--------|
|                            | 17 JUN | 17 NOV | 21 SEP | 23 FEB | 14 APR |
| Geoff Broadhead            |        | •      |        |        |        |
| Donna Ridland              |        | •      |        |        |        |
| Roger Irvine               |        | •      |        |        |        |
| Peter Fieldsend (Co-Optee) | •      | •      |        |        |        |

## Costs of Operation

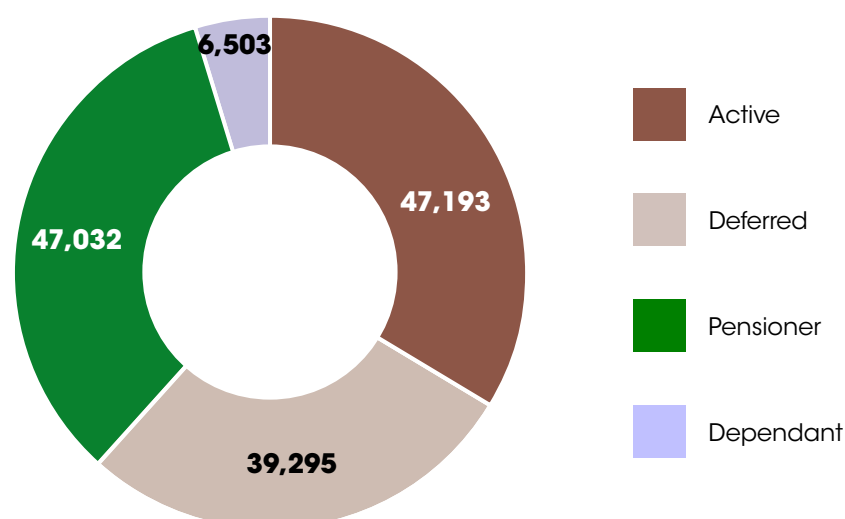
|              | 2020/21<br>£  |
|--------------|---------------|
| Conference   | 1,990         |
| Travel       | 0             |
| Allowances   | 20,415        |
| <b>Total</b> | <b>22,405</b> |

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

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

# Membership Statistics

## Membership as at 31 March 2021



## Number of Members by Age Band

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

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

## Key Membership Statistics 2016 - 2020

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

## New Pensioners in Year 2020/21 by Retirement Type

| Retirement Type | Number       |
|-----------------|--------------|
| Normal          | 626          |
| Early           | 1,144        |
| Ill-Health      | 100          |
| <b>Total</b>    | <b>1,870</b> |





# Scheme Administration Report

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## The Administration Team

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

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

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

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

## Service Delivery Developments and Impacts of COVID-19

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

During the global pandemic, service has continued whilst many organisations were forced to come to a standstill and reduce service. We have adapted and built new offerings to support

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

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

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

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

## Statutory Framework of LGPS

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

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

## Employer Base

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

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

## Value for Money

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

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

## LGPS2014 - Scheme Design

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

The LGPS:

- has a normal pension age equal to State Pension Age (minimum age 65)

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

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

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

## Legislative Change

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

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

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

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

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

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

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

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

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

### **UK Pensions Schemes Act 2021**

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

#### **Pension Dashboards**

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

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

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

#### **Governance of Transfers**

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

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



**Lifetime Allowance frozen**

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

**The Restriction of Public Sector Exit Payment Regulations 2020**

The legislation implementing the £95k cap on exit payments including pension strain costs came into force on 4 November 2020.

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

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

**The Restriction of Public Sector Exit Payment (Revocation) Regulations 2021**

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

The exit payment cap had dominated the LGPS for the latter half of the Scheme year, and the

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

**National Engagement - Scheme Consultations**

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

**McCloud Remedy - Amendments to The Statutory Underpin**

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

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

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

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

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

## Reforming Local Government Exit Pay

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

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

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

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

## Fund Policies

### Overpayment of Pensions Policy

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

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

The policy confirms that the Fund adopts the HM Revenue & Customs (HMRC) statutory 'de minimus limit' of £250, which allows for the non-recovery of a payment up to £250 gross

made in error 'because of circumstances that were beyond the control of the pension scheme making the payment'.

The Pension Board considered the draft policy and after making a number of revisions to the document and deemed it suitable for presentation to Pensions Committee on the basis it is equitable to Scheme members, the Scheme itself and the taxpayer.

The Pensions Committee approved the Policy on 30 March 2021.

## Key Projects and Developments

### Annual Benefit Statement Activity

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

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

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

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

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

## Data Quality

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

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

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

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

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

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

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

The data extract file identified 6,269 records with an outstanding refund entitlement and the Fund has previously taken steps to trace the members and discharge those liabilities as a refund payment to the member, but to no avail. Of the outstanding refunds 2,500 have a value of less than £100 and a pragmatic approach has been

taken to record the cases as 'no further liability' status to eliminate any GAD perception of an ongoing retirement pension liability. Each case has a marker to indicate a refund is payable in the event of a member making contact.

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

### **i-Connect/Monthly Data Collection Project**

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

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

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

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

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

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



### Preparatory Activities to Administer the McCloud Remedy

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

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

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

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

### The Pension Regulator Pledge against Pension Scams

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

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

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

The pledge states that the Fund will take actions to:

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

### Final Good Governance Report Published

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

The report provides further detail on the following recommendations.

- The LGPS senior officer: a single named officer who is responsible for the delivery of LGPS activity for a fund. The report covers the core functions of the role, the personal competencies needed to fulfil the role successfully and how the role could be incorporated into different organisational structures.
- Conflicts of interest: all administering authorities should publish a conflicts of interest policy that is specific to the LGPS. That policy should cover how it identifies, monitors, and manages any conflicts. The report includes more detail on what LGPS-specific areas should be covered by the policy.
- Representation: each Administering Authority must publish a policy on how Scheme members and non-Administering Authority employers are represented on its committees.
- Skills and training: introduce a requirement for key individuals, such as Pensions Committee members and section 151 officers, to have the appropriate level of knowledge and understanding to carry out their duties efficiently. The Administering Authority must publish a training strategy that sets out its policy on delivery, assessment and recording of training plans.
- Service delivery: regulation change to make it compulsory for an Administering Authority to publish an administration strategy.
- KPIs: that focus on ensuring that each Administering Authority has defined service standards and has the governance in place to monitor those standards.
- Business planning process: the senior officer and committee must be satisfied with the resource and budget allocated to administer the LGPS each year.

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

### **Preliminary Gap Analysis of MPF**

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

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

### **Collaboration with Peer Funds, Scheme Employers and National Bodies**

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

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

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

## Operational Improvements

### Digital Transformation Programme

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

#### Automation of Refund and Workflow Processes

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

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

#### Deferred Retirement Estimates

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

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

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

### Digital Accessibility

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

### Customer Engagement

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

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

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

## Strategic Focus, Planning and Operational Cost

### Service Planning

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

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

## Staff Training and Development

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

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

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

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

## Operational Costs

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

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

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

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

The Fund participates in an administration benchmarking initiative by the company CEM.

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

## Equality & Diversity

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

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

## Member Communications

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

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

## Presentations & Courses

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

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



### Annual Allowance Workshop

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

### Employer Communications

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

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

### Data Security

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

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection & Information Security, and are required to undertake Information Governance training.
- New staff, as part of their induction, have the responsibilities and policies explained, and their understanding verified, by the successful undertaking of an online test.

- All administration data is stored electronically, and any paper records are securely destroyed
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication or a Wirral Council authorised device)
- Where person identifiable data has to be transferred off-site, the Fund uses secure means, be it Transport Layer Security (TLS) email or encrypted data containers.

### Performance Standards

Results of performance against targets are shown below:

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

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

### Internal Dispute Resolution Cases

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

**Appeals Against Employer Decisions**

| <b>Employer</b>              | <b>Number</b> | <b>Appeal Decision</b> |
|------------------------------|---------------|------------------------|
| <b>Liverpool</b>             |               |                        |
| Award of ill health tier     | 1             | Upheld                 |
| Award of Flexible Retirement | 1             | Ongoing                |
| <b>Sefton</b>                |               |                        |
| Reason for Leaving           | 1             | Dismissed              |
| <b>Knowsley</b>              |               |                        |
| Reason for Termination       | 1             | Dismissed              |
| Award of ill health Pension  | 1             | Ongoing                |
| <b>Total</b>                 | <b>5</b>      |                        |

**Appeals Against Fund Decisions**

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

# Investment Report

Year ended 31 March 2021

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

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

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

Despite the ravaging impact lockdowns imparted on the world's economies in Q2 2021, equity markets rallied strongly in April 2020, recovering from the pandemic induced declines of around 35% at their trough in mid-March. Despite the highly restrictive lockdown measures universally imposed, (arguably with the exclusion of Japan and Sweden), equity markets took inspiration from

the unprecedented large support and stimulus packages announced by all major developed economies. Indeed, by August most equity indices had recovered their losses. Figure 1 below depicts in detail the stellar returns of all equity markets over the financial year, but to summarize global equity indices rose around 40%. Similarly, the dramatic decline of crude oil prices proved short-lived.

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

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

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

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

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

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

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

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

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

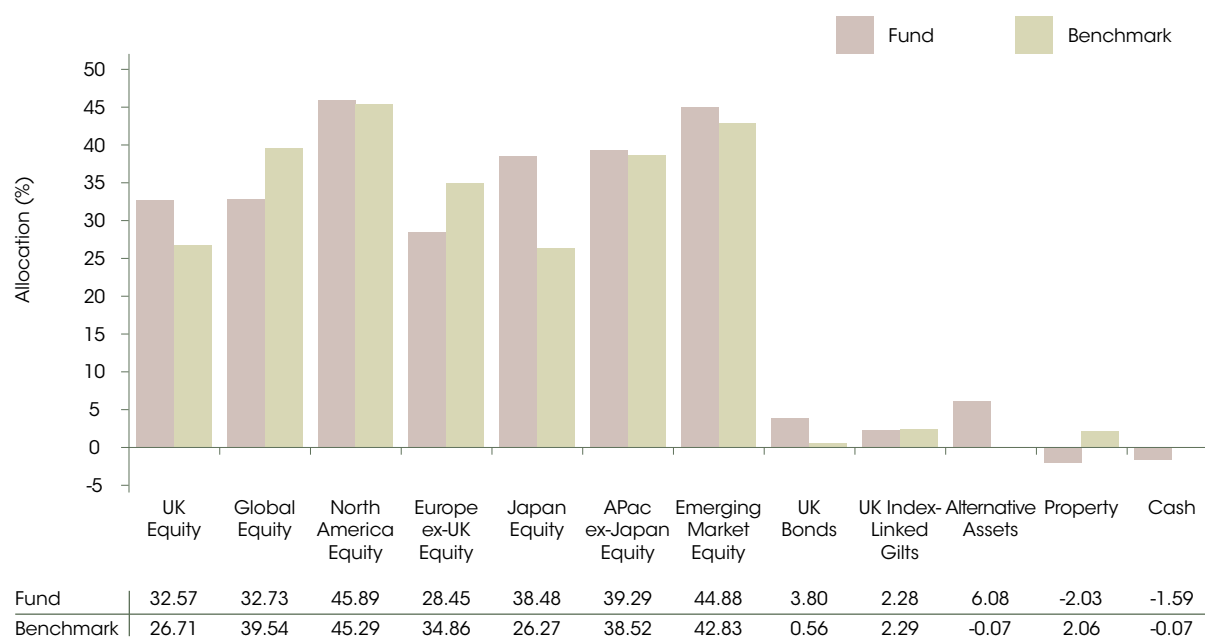
The Fund's 1-year investment performance against its benchmarks across all asset classes is illustrated in Figure 1

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

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



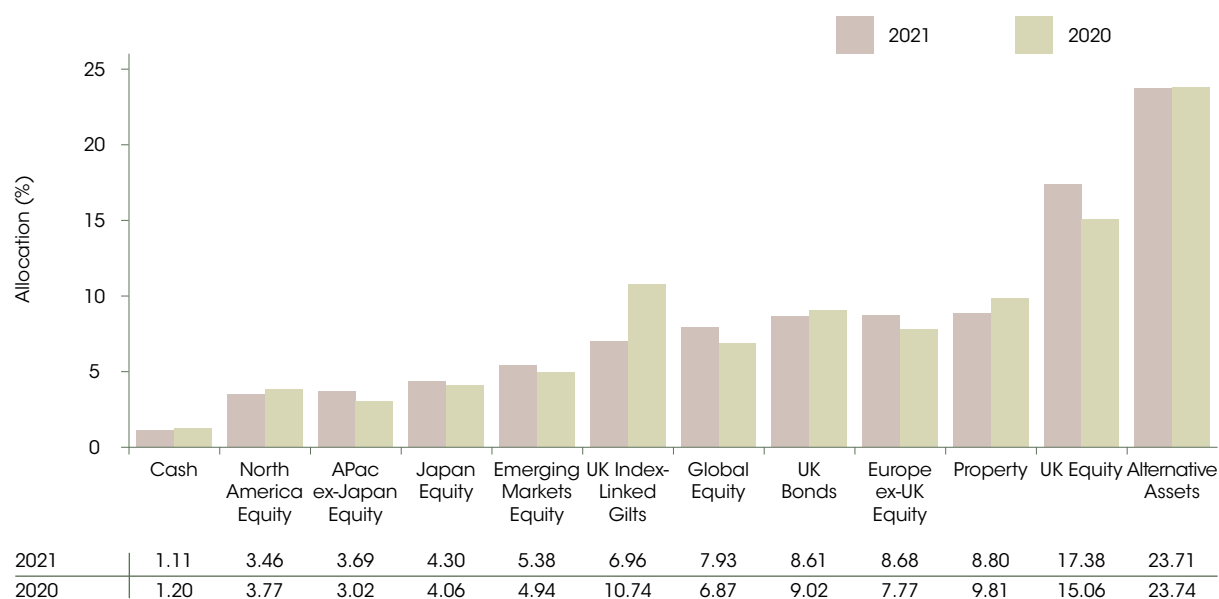
**Figure 1.**  
**1 Year Return by Asset Class**



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

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

**Figure 2.**  
**Asset Allocation Changes**



(Source - Northern Trust; GBP-adjusted)

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

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

### Largest UK Property Holdings as at 31 March 2021

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

(Source - CBRE)

### Largest Infrastructure Holdings as at 31 March 2021

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

(Source - Northern Trust)

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

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

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

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

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

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

## Responsible Investment

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

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

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

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

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

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

## Merseyside Pension Fund - TCFD Statement as at 31 March 2021

### Governance

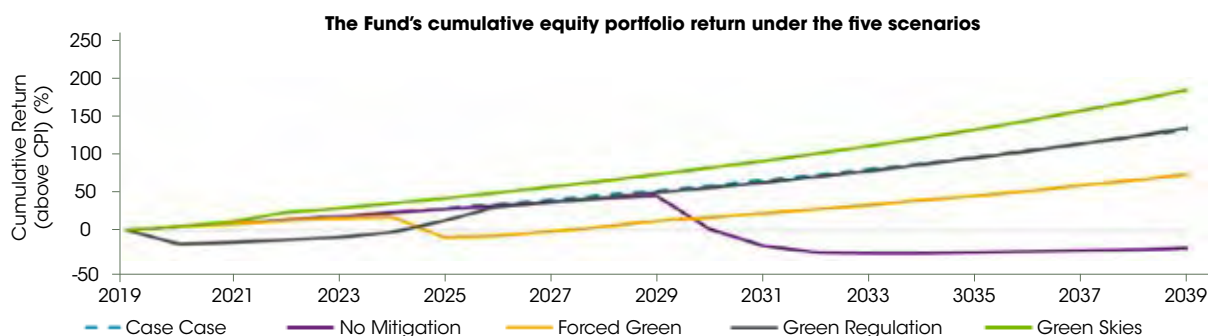
The Pensions Committee (as the Fund's governing body) has mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance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

### Strategy

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

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

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



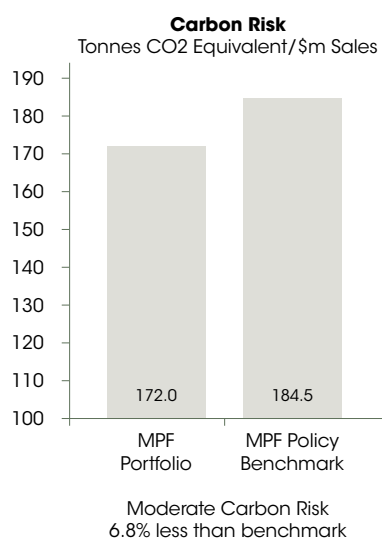


## Risk Management

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

## Targets and Metrics

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



(Source - Aon/MSCI)

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

## Climate stewardship

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

# Financial Performance

## Key Financials for 2020/21

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The material variable in these assumptions is investment returns. If returns over the next few

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





# Financial Statements

## Fund Account - for year ended 31 March 2021

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

## Net Assets Statement - for year ended 31 March 2021

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

# Notes to the Accounts

## 1. Description of Fund

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

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

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

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

### a. General

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

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

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

### b. Membership

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

Organisations participating in Merseyside Pension Fund include:

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

There are 212 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 140,023 members as detailed below:

| 31/3/20        |   | 31/3/21        |
|----------------|---|----------------|
| <b>207</b>     | Number of Employers with Active Members | <b>212</b>     |
| 46,745         | Number of Employees in Scheme           | 47,193         |
| 46,435         | Number of Pensioners                    | 47,032         |
| 6,595          | Number of Dependants                    | 6,503          |
| 40,185         | Number of Deferred Pensioners           | 39,295         |
| <b>139,960</b> | <b>Total Scheme Members</b>             | <b>140,023</b> |

### c. Funding

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

**d. Benefits**

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

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

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

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

**2. Basis of Preparation**

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

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

Restatements in 2019/20 are a change in presentation only, the requirements of the code were previously met. The Net Asset Statement for 2019/20 has been restated to report derivatives gross rather than net positions, this has had no overall impact on the Net Assets of the Fund.

The accounts have been prepared on a going concern basis.

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

### 3. Summary of Significant Accounting Policies

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

#### Contributions and Benefits

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

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

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

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

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

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

#### Transfers to and from other Schemes

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

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

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

#### Management Expenses

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

##### Administration Costs

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

##### Investment Management Costs

All investment expenses are accounted for on an accruals basis.

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

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

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

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

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

**Oversight and Governance Costs**

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

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

**Investment Income**

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

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

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

**Taxation**

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

**Valuation of Investments**

All financial assets apart from loans are included in the Net Asset Statement on a fair value basis as at the reporting date. Loans are included in the Net Asset Statement on an amortised cost basis. The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 15). For the purposes of disclosing levels of fair value

hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). The values of investments as shown in the Net Asset Statement are determined as follows:

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



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

### Translation of Foreign Currencies

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

### Derivatives

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

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

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

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

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

### Short-Term Deposits

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

### Financial Liabilities

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

### Additional Voluntary Contributions

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

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

## 4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

## 5. Estimation and Uncertainty

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

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

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

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

### Unquoted Investments

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

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

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

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

For 2020/21 the property valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS valuation - Global Standards. In 2019/20, due to COVID-19, the property valuation was reported on the basis of 'material valuation uncertainty' and stated consequently, less

certainty, and a higher degree of caution should be attached to the valuation than normally would be the case.

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

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

## 6. Events After the Reporting Date

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

## 7. Contributions Receivable

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

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

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

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

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

## 8. Transfers In

| 2019/20<br>£'000 |                      | 2020/21<br>£'000 |
|------------------|----------------------|------------------|
| 18,152           | Individual Transfers | 15,214           |
| <b>18,152</b>    |                      | <b>15,214</b>    |

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

## 9. Benefits Payable

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

## 10. Payments to and on Account of Leavers

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

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

## 11. Management Expenses

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

## 11a. Administration Costs

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

## 11b. Investment Management Costs

| <b>2020/21</b>                         | <b>Total</b>  | <b>External<br/>Investment<br/>Management<br/>Fees</b> | <b>External<br/>Investment<br/>Management<br/>Performance<br/>Fees</b> | <b>External<br/>Private<br/>Market<br/>Fees</b> | <b>External<br/>Private<br/>Market<br/>Expenses</b> | <b>Transaction<br/>Costs</b> |
|--|---------------|--|--|---|---|------------------------------|
|  | <b>£'000</b>  | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>                                    | <b>£'000</b>  | <b>£'000</b>                 |
| 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              | -             | -  | -  | -   | -   | -                            |
|  |               | <b>11,348</b>  | <b>3,469</b>   | <b>7,649</b>                                    | <b>5,927</b>  | <b>4,924</b>                 |
| External Services                      | 820           |  |  |   |   |                              |
| Internal Investment<br>Management Fees | 855           |  |  |   |   |                              |
|  | <b>34,992</b> |  |  |   |   |                              |

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

Property expenses are now shown within note 12a.

## 11c. Oversight and Governance Costs

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

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

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

## 12. Investment Income

Rental income is shown net of any property related expenses.

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

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

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

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



## 12a. Property Income

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

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

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

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

## 12b. Property Operating Leases

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

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

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

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

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

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

### 13. Investments

| 2020/21                     | Market Value<br>31/3/20<br>£'000 | Purchases<br>at Cost and<br>Derivative<br>Payments<br>£'000 | Sale<br>Proceeds and<br>Derivative<br>Receipts<br>£'000 | Change<br>in Market<br>Value*<br>£'000 | Market Value<br>31/3/21<br>£'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                           |
|                             | <b>8,170,241</b>                 | <b>2,818,082</b>  | <b>(2,650,422)</b>                                      | <b>1,506,603</b>                       | <b>9,844,504</b>                 |
| 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)                          |
|                             | <b>8,341,435</b>                 | <b>5,784,282</b>  | <b>(5,634,322)</b>                                      | <b>1,314,437</b>                       | <b>9,805,832</b>                 |
| 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)                         |
|                             | <b>8,606,889</b>                 |   |   | <b>1,308,738</b>                       | <b>10,052,530</b>                |

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

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

Direct transaction costs are shown under investment management costs in note 11b, in accordance with CIPFA guidance. Indirect costs

are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

### 13a. Analysis of Investments

| 2019/20<br>£'000                      | 2020/21<br>£'000 | 2019/20<br>£'000   | 2020/21<br>£'000                        |
|---------------------------------------|------------------|--|---|
| <b>Equities (Segregated Holdings)</b> |                  | <b>86,076</b>  | <b>Loans 78,110</b>                     |
| 1,014,305 UK Quoted                   | 1,336,937        | <b>105,010</b>   | <b>Short-Term Cash Deposits 125,018</b> |
| 1,469,263 Overseas Quoted             | 1,876,708        | <b>Other Investment Balances</b>   |   |
| <b>2,483,568</b>                      | <b>3,213,642</b> | 55,729 Outstanding Trades  | 7,481                                   |
| <b>Bonds</b>                          |                  | 22,589 Outstanding Dividend Entitlements and Recoverable Withholding Tax | 20,630                                  |
| 679,699 UK Public Sector Quoted       | 695,600          | 103,189 Cash Deposits  | 116,437                                 |
| 400 UK Corporate Quoted               | 400              | <b>181,507</b>   | <b>144,548</b>                          |
| 16,130 Overseas Corporate Quoted      | -                | <b>8,707,165</b>   | <b>Total Investments 10,517,885</b>     |
| <b>696,229</b>                        | <b>696,000</b>   |  |   |
| <b>Pooled Investment Vehicles</b>     |                  |  |   |
| <b>UK Managed Funds:</b>              |                  |  |   |
| 75,913 Equities                       | 117,664          |  |   |
| 108,663 Private Equity                | 196,808          |  |   |
| 172,358 Hedge Funds                   | 180,197          |  |   |
| 384,588 Corporate Bonds               | 407,569          |  |   |
| 299,982 Infrastructure                | 359,855          |  |   |
| 216,442 Opportunities                 | 315,882          |  |   |
| <b>Overseas Managed Funds:</b>        |                  |  |   |
| 564,600 Equities                      | 722,853          |  |   |
| 518,898 Private Equity                | 633,688          |  |   |
| 102,410 Hedge Funds                   | 112,532          |  |   |
| 62,884 Corporate Bonds                | 84,315           |  |   |
| 251,592 Infrastructure                | 250,699          |  |   |
| 68,655 Opportunities                  | 97,171           |  |   |
| <b>UK Unit Trusts:</b>                |                  |  |   |
| 72,111 Property                       | 106,888          |  |   |
| <b>Overseas Unit Trusts:</b>          |                  |  |   |
| 214,805 Property                      | 217,324          |  |   |
| 1,318,542 <b>Other Unifised Funds</b> | 1,589,582        |  |   |
| <b>4,432,443</b>                      | <b>5,393,027</b> |  |   |
| <b>Derivative Contracts</b>           |                  |  |   |
| 14,439 FX                             | -                |  |   |
| 229,839 Options                       | 402,967          |  |   |
| 6,130 Swaps                           | 848              |  |   |
| <b>250,408</b>                        | <b>403,815</b>   |  |   |
| <b>UK Properties</b>                  |                  |  |   |
| 345,825 Freehold                      | 348,425          |  |   |
| 126,100 Leasehold                     | 115,300          |  |   |
| <b>471,925</b>                        | <b>463,725</b>   |  |   |
| 521,750 Balance at 1 April            | 471,925          |  |   |
| 21,943 Additions                      | 41,061           |  |   |
| (35,483) Disposals                    | (16,463)         |  |   |
| 11,583 Net Gain/(Loss) on Fair Value  | 3,621            |  |   |
| (47,868) Other Changes in Fair Value  | (36,419)         |  |   |
| <b>471,925 Balance at 31 March</b>    | <b>463,725</b>   |  |   |

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

## 13b. Analysis of Derivatives

### Forward Currency Contracts

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

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

### Purchased/Written Options

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

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

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

## Swaps

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

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

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

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



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

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

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

### 13d. Stock Lending

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

### 14. Investment Liabilities

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

### 15. Fair Value - Basis of Valuation

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

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

### Sensitivity of assets valued at Level 3

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

| <b>31 March 2021</b>     | <b>Value<br/>£'000</b> | <b>Potential<br/>Variance<br/>%</b> | <b>Value on<br/>Increase<br/>£'000</b> | <b>Value on<br/>Decrease<br/>£'000</b> |
|--------------------------|------------------------|-------------------------------------|--|--|
| 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                              |
| <b>Total</b>             | <b>2,998,801</b>       |                                     |  |  |

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

## 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.

| <b>Values at 31 March 2021</b>      | <b>Level 1<br/>£'000</b> | <b>Level 2<br/>£'000</b> | <b>Level 3<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-------------------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| <b>Investment Assets</b>            |                          |                          |                          |                        |
| 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                |
| <b>Total Investment Assets</b>      | <b>5,330,511</b>         | <b>2,188,573</b>         | <b>2,998,801</b>         | <b>10,517,885</b>      |
| <b>Investment Liabilities</b>       |                          |                          |                          |                        |
| Amounts due to stockbrokers         | (22,868)                 | -                        | -                        | (22,868)               |
| Derivative Contracts                | -                        | (442,487)                | -                        | (442,487)              |
| <b>Total Investment Liabilities</b> | <b>(22,868)</b>          | <b>(442,487)</b>         | <b>-</b>                 | <b>(465,355)</b>       |
| <b>Net Investment Assets</b>        | <b>5,307,643</b>         | <b>1,746,086</b>         | <b>2,998,801</b>         | <b>10,052,530</b>      |

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

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



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

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

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

## 16. Financial Instruments

### 16a. Classification of Financial Instruments

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

| 31 March 2021                      | Assets at<br>Amortised Cost<br>£'000 | Liabilities at<br>Amortised Cost<br>£'000 | Fair Value Through<br>Profit and Loss<br>£'000 | Total<br>£'000    |
|------------------------------------|--------------------------------------|---|--|-------------------|
| <b>Financial Assets</b>            |                                      |   |  |                   |
| 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            |
| <b>Total Financial Assets</b>      | <b>391,446</b>                       | <b>-</b>                                  | <b>9,706,484</b>                               | <b>10,097,930</b> |
| <b>Financial Liabilities</b>       |                                      |   |  |                   |
| Derivatives                        | -                                    | -   | (442,487)                                      | (442,487)         |
| Other Investment Balances          | -                                    | (22,868)                                  | -  | (22,868)          |
| Current Liabilities                | -                                    | (16,552)                                  | -  | (16,552)          |
| <b>Total Financial Liabilities</b> | <b>-</b>                             | <b>(39,420)</b>                           | <b>(442,487)</b>                               | <b>(481,907)</b>  |
| <b>Total Net Assets</b>            | <b>391,446</b>                       | <b>(39,420)</b>                           | <b>9,128,077</b>                               | <b>9,616,023</b>  |

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

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

### 16b. Net Gains and Losses on Financial Instruments

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

### 16c. Fair Value of Financial Instruments

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

## 17. Nature and Extent of Risks Arising from Financial Instruments

### Risk and Risk Management

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

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

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

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

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

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

The Fund manages investment risks through the following measures:

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

## 17a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The following tables show the Fund's

exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward-looking assumption of future volatility based on analysis of previous performance and probability.

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

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

**Interest Rate Risk**

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

**Currency Risk**

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

**17b. Credit Risk**

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

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

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

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

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

**17c. Liquidity Risk**

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

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

The Fund has no borrowing or borrowing facilities.

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

**Refinancing Risk**

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



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

## 19. Long-Term Assets

| 2019/20<br>£'000 |                                  | 2020/21<br>£'000 |
|------------------|----------------------------------|------------------|
| 6,337            | Assets due in more than one year | 3,337            |
| <b>6,337</b>     |                                  | <b>3,337</b>     |

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

## 20. Current Assets and Liabilities

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

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

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

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

## 21. Contractual Commitments

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

## 22. Contingent Assets

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

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

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

## 23. Related Party Transactions

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

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.9 million. (2019/20 £4.0 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on

the basis of time spent on Fund work by Wirral Council. There was a debtor of £6.6 million (2019/20 £8.9 million) and a creditor of £1.1 million as at 31 March 2021 (2019/20 £337,020).

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

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

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

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

### 23a. Key Management Personnel

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

## 23b. Officer Board Roles

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

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

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

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

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

## 24. Additional Voluntary Contribution Investments

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

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

# Statement of Responsibilities

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## The Authority's Responsibilities

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

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

## Section 151 Officer Responsibilities

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

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

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

The Section 151 Officer has also:

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

## The Section 151 Officer's Certificate

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



**Shaer Halewood**  
Section 151 Officer  
September 2021

# Audit Report

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Independent auditor's report to the members of Wirral Metropolitan Borough Council on the consistency of the pension fund financial statements of Merseyside Pension Fund included in the Pension Fund Annual Report.

## Opinion

The pension fund financial statements of Merseyside Pension Fund (the 'pension fund') administered by Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the 'Statement of Accounts').

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

## Pension Fund Annual Report - Pension Fund Financial Statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## The Audited Financial Statements and our Report Thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 28 January 2022.

## Chief Finance Officer's Responsibilities for the Pension Fund Financial Statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Finance Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

## Auditor's Responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.



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## Use of Our Report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(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.



**Andrew Smith**  
**Key Audit Partner**

For and on behalf of Grant Thornton UK LLP,  
Local Auditor, Manchester.

28 January 2022

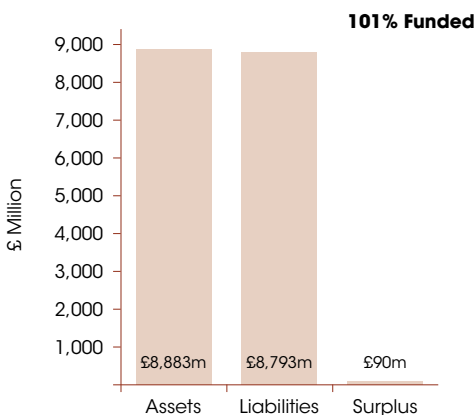
# Consulting Actuary's Statement

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

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

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

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



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

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

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

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

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

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

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

|   | <b>For Past Service Liabilities<br/>(Solvency Funding Target)<br/>per annum</b> | <b>For Future Service Liabilities<br/>(Primary rate of contribution)<br/>per annum</b> |
|---|---|--|
| 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<br>(in excess of Guaranteed Minimum Pension) | 2.4%  | 2.4%   |

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

The assets were assessed at market value.

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

### The McCloud Judgment

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

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

to pay additional contribution over 2020/23 in relation to the McCloud judgment, these emerge in the Secondary Contribution Rate figures quoted above.

### Impact of COVID-19

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

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

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

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

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

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

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

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

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

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

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

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## GMP Indexation

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



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

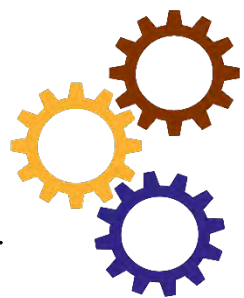


**Clive Lewis**  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
June 2021



# NorthernLGPS

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







# Northern LGPS Pool

## Report of the Chair

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

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

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

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

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

GLIL's future potential was further bolstered by the commitments made by Nest Pensions to invest in GLIL, taking total capital committed to around £2.5bn. Nest is the defined contribution pension scheme set up by Government to ensure all UK employers have access to a pension scheme in which

to auto-enrol their employees. It currently has over 9 million members. Nest's ground-breaking commitment to GLIL is one of the first allocations to private markets from a modern defined contribution scheme in the UK and endorses GLIL's governance strength and suitability to provide attractive investment returns for pensions savers. We share Nest's long-term investment horizon and sustainable investment objectives and look forward to building an enduring relationship to bring the benefits of infrastructure investment to millions of workplace pension holders.

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

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

A handwritten signature in dark ink, appearing to read "Gerald P. Kearney". The signature is written in a cursive, flowing style.



## Background

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

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

## History

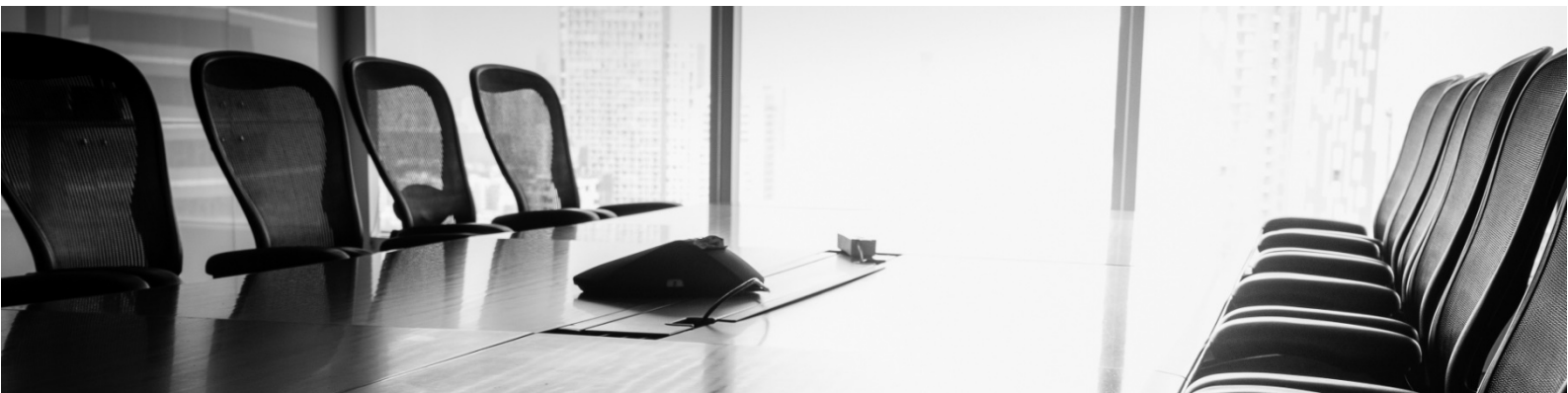
The Northern LGPS Pool was formed in response to the Government's LGPS pooling agenda, which was first announced in 2015. The Government sought to increase the scale of LGPS investment mandates in order to reduce investment management costs and facilitate infrastructure investment to help drive growth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

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

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

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

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



## Governance

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

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

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

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

## Northern LGPS Pool – 31 March 2021 position at a glance

| Fund                | Assets<br>£bn |
|---------------------|---------------|
| GMPF                | 26.9          |
| WYPF                | 16.1          |
| MPF                 | 9.9           |
| <b>Total Assets</b> | <b>52.9</b>   |

## Northern LGPS Pool – Total costs and savings

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

|                                   | Up to<br>31 March<br>2018<br>£m | 2018-19<br>£m | 2019-20<br>£m | 2020-21<br>£m | Total to<br>31 March<br>2021<br>£m |
|-----------------------------------|---------------------------------|---------------|---------------|---------------|------------------------------------|
| Annual running costs              | 0                               | 0             | 0.1           | 0.16          | 0.26                               |
| Other service provider fees       | 0                               | 0.13          | 0.78          | 1.17          | 2.07                               |
| Transition costs                  | 0                               | 0             | 0             | 0             | 0                                  |
| Set up costs                      | 0.22                            | 0.18          | 0.09          | 0             | 0.49                               |
| <b>Total costs</b>                | 0.22                            | 0.31          | 0.97          | 1.33          | 2.83                               |
| Investment management fee savings | 7.63                            | 12.21         | 22.24         | 31.63         | 73.71                              |
| Service provider savings          | 0                               | 0             | 0.06          | 0.15          | 0.21                               |
| <b>Total savings</b>              | 7.63                            | 12.21         | 22.31         | 31.77         | 73.92                              |
| <b>Total savings net of costs</b> | <b>7.41</b>                     | <b>11.90</b>  | <b>21.33</b>  | <b>30.45</b>  | <b>71.09</b>                       |

|   |                |
|---|----------------|
| <b>Total costs (including set up, transition and running costs) as at 31 March 2021</b> | <b>£2.83m</b>  |
| <b>Total savings, net of costs, as at 31 March 2021</b>                                 | <b>£71.09m</b> |

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.

As there were no pool set up costs in 2020/21 we have not included the table showing the breakdown of set-up costs that was provided in previous years. Please refer to the 2019/20 Northern LGPS Annual Report for a breakdown of historic pool set up costs.



## Responsible Investment

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

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

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

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





## **GLIL Direct Infrastructure Vehicle**

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

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

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

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

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

## **Northern Private Equity Pool LP**

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

The Northern Private Equity Pool draws on the combined expertise and experience of the internal teams at each of the respective Northern LGPS funds, and the administration capabilities of Northern LGPS's pool-wide external custodian. The combined scale and resources of the Northern

Private Equity Pool enables the partner funds to invest in private equity through lower cost implementation approaches than have been the case historically.

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

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

## **Northern LGPS Property Framework**

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

## **Objectives for 2021/22**

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





## **Report & Accounts 2020/21**

### **Fund Policies**

Communications Policy 2020

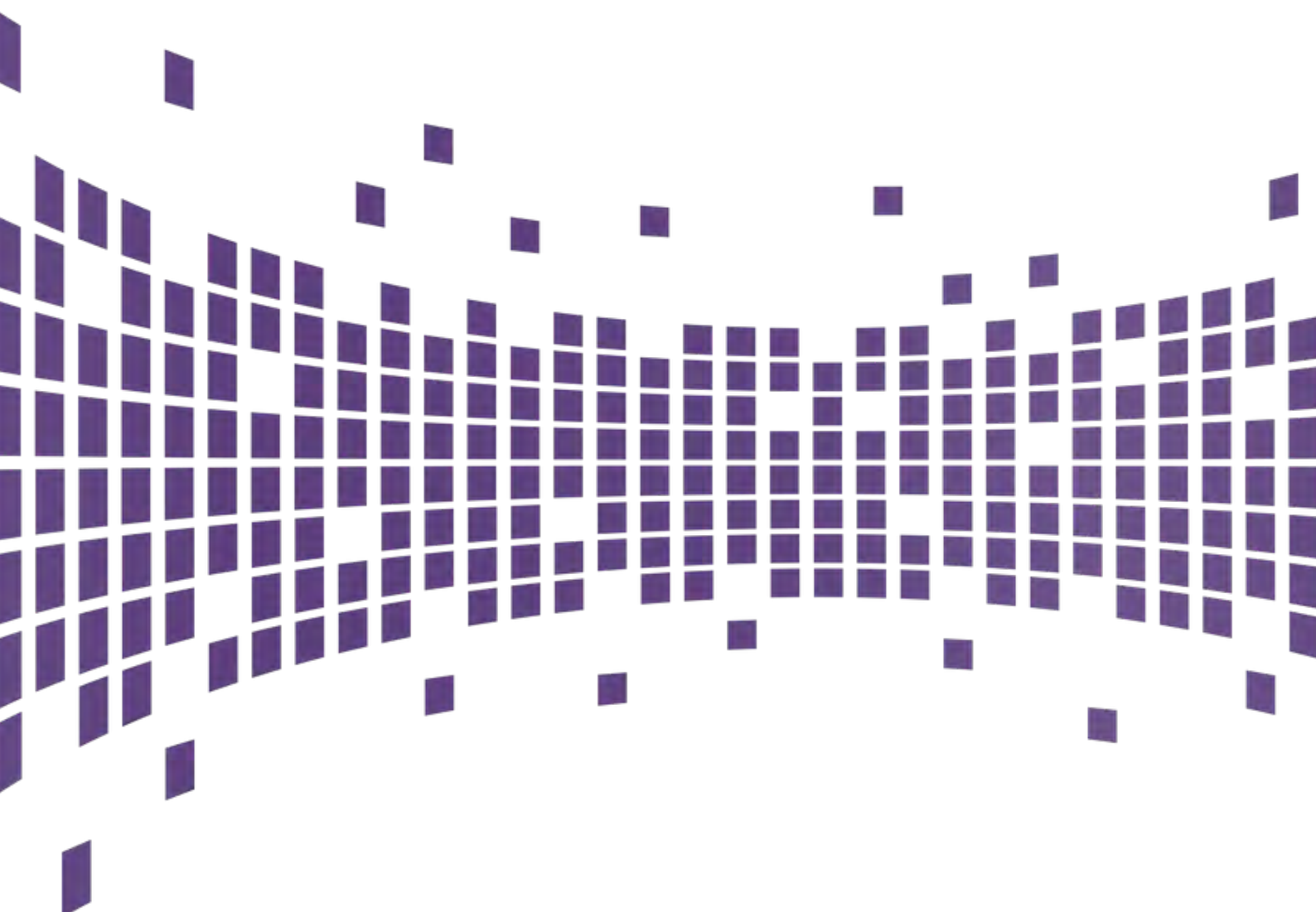
Funding Strategy Statement 2021

Governance Policy 2019

Investment Strategy Statement 2020

Pensions Administration Strategy 2018





Merseyside Pension Fund

# Communications Policy

Wirral Metropolitan Borough Council

As approved by Pensions Committee on **16 July 2018** following consultation with the Local Pension Board

Policy last reviewed **21 April 2020**



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## Introduction

Merseyside Pension Fund (the Fund) is one of the largest Local Government Pension Schemes in the UK and manages the pension records of over 135,000 members.

The Fund is committed to providing clear, accurate, comprehensive and timely information to all stakeholders, through the most appropriate and cost-effective communication medium. Funds in England and Wales are required to publish a statement of policy under Regulation 61 of the Local Government Pension Scheme Regulations 2013 relating to the communications with members and Scheme employers.

As required by the regulations, this policy will outline the Fund's activities in regard:

- Communications to members, representatives of members, prospective members and Scheme employers;
- The format, frequency and method of distributing such information;
- The promotion of the Scheme to prospective members and their employers;

This policy will be revised and republished following any material change in policy.

## General Communications

For general communications, the Fund can be contacted at:

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

**Telephone:** 0151 242 1390  
**Fax:** 0151 236 3520  
**Email:** [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

## Telephone

All Fund communications to individual members have a published telephone number. The number may be a general enquiry number, a workgroup or helpline number (such as Pensions Payroll) or, in individual cases, a direct telephone number to the staff member responsible.

For training purposes and as part of its continual improvement programme, the Fund may monitor and record calls.

## Internet

The Fund has two main websites:

- <https://mpfmembers.org.uk>
- <https://mpfemployers.org.uk>

These can also be accessed via <http://merseysidepensionfund.org.uk>

## Social Media

The Fund has a presence on Facebook and Twitter, where members can be notified of notices and news recently published on our main members' website. Members can also directly message the Fund via both these platforms:

- <https://www.facebook.com/mpfmembers>
- <https://twitter.com/mpfmembers>

## Public Enquiry Counter

For those members who prefer 'face to face' communication, the Fund's offices are centrally situated in Liverpool city centre and are easily accessible by public transport from all areas of Merseyside. A public enquiry counter is situated on the 7th floor of Castle Chambers, open from 9.00 to 5.00, Monday to Friday. A private interview room is available for members who wish to discuss confidential matters.

Appointments can be made to discuss specific pension options or problems and, if necessary, appropriate staff can visit a workplace or members at home in cases of special need.

## **Access to Communications**

The Fund is committed to make all necessary and reasonable adjustments to help members who require assistance to access our communications. The Fund can arrange large print, audio or Braille versions of all literature.

All print and electronic communications are designed with full consideration for those with additional needs. This is to ensure that all members can access our services. All communications media is measured against accessibility standards. The Fund is assisted by various partner organisations in fulfilling the objectives of the Equality Act 2010.

## Communicating with Scheme Members

### Members' Website – [mpfmembers.org.uk](http://mpfmembers.org.uk)

The website has individual sections for active, pensioner and deferred members, reflecting the diverse needs of our membership. The site provides explanation, guidance and updates for all categories of member.

An important part of the website is given over to the governance of the Fund, its statutory responsibilities and investment performance. This demonstrates the Fund's commitment to transparency in our dealings with members and all stakeholders.

Scheme members also have the opportunity to securely access their own pension records via the secure **MyPension** online portal and to update home address information.

### Annual Benefit Statement

An annual benefit statement is made available online for active and deferred members. These statements with supporting guidance notes are made available through the Fund's secure online portal. Annual benefit statements can be issued in paper form on written request to the Fund. The distribution of statements to active & deferred members is also an opportunity to summarise any changes to the Scheme regulations or other changes in regard pensions.

### Scheme Literature

Whilst the website contains detailed information and guidance for members, the Fund also maintains an extensive range of literature for all categories of member. Copies of scheme literature are made available on the members' website.

### Newsletters

'Honeypot' is the Fund's in-house newsletter for pensioners. Published annually, the newsletter is produced on paper and posted to the home address of all members in receipt of pension benefits. It proves to be a useful way of providing updates on pension increases, relevant changes in legislation, topical news, competitions, letters and maintaining a dialogue with our pensioner members.

For general communications to active members, the Fund produces news items for use by Scheme employers on intranets, broadcast emails, staff newsletters and manager briefing publications.

The Fund on occasion will utilise newsletters to communicate major Scheme changes to active and deferred members; the format is particularly useful when explaining multiple, complicated changes. Because of their nature, these newsletters are not produced at fixed times, but rather in response to changes in the regulations; with reference to the time restrictions imposed by the Disclosure regulations.

## **Presentations & Courses**

The Fund delivers standard or tailored presentations on a wide range of subjects for members. These presentations are provided on demand in conjunction with employers; although a minimum number of attendees will be required to justify Fund resources.

The Fund pro-actively arranges courses on wider topic areas and invites appropriate third parties to assist Fund staff in presenting relevant information, workshop activities and also to provide relevant support materials to take home. Courses can be delivered at employer sites or in Liverpool city centre.

Presentations & courses can be requested from the Communications team on **0151 242 1392** or **[mpfcomms@wirral.gov.uk](mailto:mpfcomms@wirral.gov.uk)**



## **Communicating with Members' Representatives**

Materials available to members are also available on request to their representatives or through the Members' website.

## **Communicating with Prospective Members**

### **Scheme booklet & Website**

Upon appointment with their employer, all prospective scheme members will be provided with a link to the Fund's website where they can access scheme booklets and the key forms for membership. The website also provides information to help members make an informed decision about contributing to the LGPS and how to opt out of the scheme should they so wish. The Fund's first contact to a new member, also reinforces the value of pension saving and provides once again the link to the Fund's website where they can access the scheme booklets.

### **Trade Unions**

The Fund works with the relevant trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request.

## **Communicating with Scheme Employers**

### **Employers' Website – [mpfemployers.org.uk](http://mpfemployers.org.uk)**

A website for Scheme employer specific communications and guidance, the employer's website is secured by a username and password.

Referencing the Payroll and HR guides published by the Local Government Association, it details the processes, procedures and forms required to effectively discharge the duties of an employer participating in the Scheme.

### **Pension Liaison Officer**

Each employer has a named member of staff who performs the duty of a Pension Liaison Officer. The primary contact for the Fund, this person is contactable by e-mail, telephone and in-person to assist the Fund in communication and supporting members.

The Pension Liaison Officer on appointment is given a username and password for the Employers' website and is also provided with the facility to request additional access for colleagues in their organisation.

## **Employer News Alerts**

Regular news items, such as changes to legislation, consultations and general administrative updates are communicated regularly to all registered users of the Employers' website.

## **Annual Report & Accounts**

The aim of the report is to highlight the important issues affecting the Fund over the previous twelve months, along with detail on both investment and administration performance.

## **Annual Employers' Conference**

A conference is held annually for all Scheme employers at which detailed investment, financial and administrative reports are presented by Fund officers. Other speakers are invited from government agencies and organisations connected to the pensions industry.

## **Pension Liaison Officers Group**

The Fund aims to hold three meetings each year with larger Scheme employers to discuss the topics of legislation, pension regulation, administration and other issues raised by the employers or the Fund. This dialogue proves useful in developing administrative processes and communications for the benefit of all Scheme employers and members.

## **Practitioner Training**

The Fund provides training for staff at Scheme employers on the basics of LGPS administration. Sessions are structured along the lines of a typical membership of the LGPS, where delegates are shown the correct procedures which should be followed during various stages of an employee's membership.

**Approved by Pensions Committee on 16 July 2018**

**Policy last reviewed on 21 April 2020**

Merseyside Pension Fund  
Castle Chambers, 43 Castle Street  
Liverpool, L2 9SH

**Telephone:** 0151 242 1390

**Fax:** 0151 236 3520

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**Email:** mpfadmin@wirral.gov.uk

A decorative graphic consisting of a grid of green squares of varying sizes, arranged in a pattern that recedes into the distance, creating a sense of depth and movement. The squares are arranged in a way that they appear to be floating or falling from the top left towards the bottom right.

Merseyside Pension Fund

# **Funding Strategy Statement**

# **2021**

Wirral Metropolitan Borough Council  
As approved by the Pensions Committee on **2 February 2021**  
**Effective from 1 July 2021**

This Funding Strategy Statement has been prepared by Wirral Metropolitan Borough Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension Fund ("the 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).

# EXECUTIVE SUMMARY

It is the fiduciary responsibility of the Administering Authority (Wirral Metropolitan Borough Council) to ensure that the Merseyside Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the Merseyside Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

**The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Merseyside Pension Fund.**

**It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.**

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



## MEETING THE FUND’S SOLVENCY OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. 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 to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities. The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for this objective to be reasonably achieved in the long term at each valuation.

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 normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations, guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives.

The level of prudence has been quantified by the Actuary to provide contingency and protection against future adverse experience in the long term. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



### **SOLVENCY AND LONG TERM COST EFFICIENCY**

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

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 means a level of prudence is needed. 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 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 relating to the Fund.



### **DEFICIT RECOVERY PLAN AND CONTRIBUTIONS**

In the case of employers whose assets are less than their liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and 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. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest



cost. This will be periodically reviewed depending on the maturity profile of the scheme.

Subject to affordability considerations and individual employer circumstances where a deficit exists and depending on the level of deficit, a guiding principle will be to maintain the total contributions at the prescribed monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Contributions will only be reduced if the Fund deems this reasonable based on covenant and other risk factors e.g. if the employer moves into a different investment strategy. Full details are set out in this FSS.

The notional period used to determine the secondary contribution rate (i.e. the adjustment to contributions in relation to deficit or surplus) for the Fund as a whole is 3 years shorter than the period from the previous valuation. For the majority of the statutory employers, the recovery period has fallen from 19 years to 16 years. Subject to affordability and other considerations individual employer specific deficit recovery periods would also be expected to reduce to the same extent at this valuation i.e. 3 years. Where employers are in surplus at the valuation date consistent principles will apply i.e. the period will be related to the covenant of the employer which may result in no change in the period compared to the last valuation.

Taking account of all the employer specific factors, the implied average period across the Fund is 13 years.

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer may be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer. Equally certain employers will be able to align their contributions changes with their financial year if this does not end on 31 March.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Otherwise, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. Where employers do not confirm whether they will opt to include the estimated costs in their certified contributions, the default will be for the costs to be included in their contributions from 1 April 2020.



## ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in Appendix A to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived from the expected return on the Fund’s assets based on the long-term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations of the returns on the Fund’s assets and the level of inflation in the long term. Also, the Fund has implemented various risk management strategies since the last valuation and the volatility of returns is expected to fall. This is also taken into account by the Actuary when proposing the assumptions leading to a reduction in the level of prudence at this valuation.

In addition, the Fund implemented a choice of “investment strategy” buckets to offer to employers with effect from 1 April 2017, which exhibit lower investment risk and average expected return than the current whole fund strategy. Further details are provided in the separate employer booklet. If an employer is deemed to have a weaker covenant than others in the Fund, or it would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into a different investment strategy to protect the Fund as a whole. The key financial assumptions are set out below:

#### **Employers within the Higher Risk Investment Strategy Bucket**

Taking into account the above, it is proposed that the real return over CPI inflation for determining the past service liabilities is 1.75% per annum and for determining the future service (“Primary Rate”) contribution rates is 2.25% per annum at this valuation.

#### **Employers within the Medium Risk Investment Strategy Bucket**

Taking into account the above, it is proposed that the real return over CPI inflation for determining the past service liabilities is 1.5% per annum and for determining the future service (“Primary Rate”) contribution rates is 2.0% per annum at this valuation.

#### **Employers and Orphan Liabilities within the Lower Risk Investment Strategy Bucket**

For any ongoing employers in the lower risk investment bucket, the discount rate is linked to the yield available on the lower risk assets within the strategy, less any appropriate margins to allow for asset default, reinvestment risk and expenses – in particular under the termination policy when certain employers terminate participation in the Fund. This is updated on a regular basis when assessing the termination position for outgoing employers.

The demographic assumptions under all buckets are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employer’s terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).



#### **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 (based on the appropriate investment bucket strategy) when deriving each employer’s asset share.

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. The investment return credited will depend on which investment bucket the employers' assets are in. In addition, the asset shares maybe restated for changes in data or other policies.

Other 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.



## FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

### 1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

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 vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

### 2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances and the basis of participation reflects the nature and funding of the service provision. The approach taken is set out in our separate admissions policy document. This can be found on the Fund's website: <https://mpfmembers.org.uk/pdf/admissions.pdf>

Examples of new employers include:

- Mandatory Scheme Employers - for example new academies
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

### 3. Termination policy for employers exiting the Fund

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 current and former employees, along with a termination contribution certificate.

#### The policy for employers who **do not have a guarantor** participating in the Fund:

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate at termination linked to the lower risk investment strategy (with appropriate adjustment for expenses plus reinvestment and default risks) and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of the cessation by the Actuary. 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. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

#### The policy for employers who **have a guarantor** participating in the Fund:

Where there is a **guarantor** who would subsume the liabilities, the default policy is that any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation. The interested parties will need to consider any separate contractual agreements that have been put in place between the exiting employer and 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 exit credit would be payable in these circumstances unless representation is made as set out below.

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 Administering Authority will provide details of the information required to make their determination for each case when the need arises. Further details are set out within the Termination Policy in Appendix B.

Where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

#### The policy for repayment of exit debts:

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). At the discretion of the administering authority, instalment plans

over an agreed period or a Deferred Debt Agreement may be entered into if an employer makes a request in writing outlining the reasons for such a request. Any deviation from this 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 taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements. Further details are set out with in Appendix B.

#### **4. Insurance arrangements**

The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The captive arrangement has been considered when setting the employer contribution rates for the eligible employers. More details are provided in **Appendix E**.

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# APPENDICES

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B – TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

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# 1

## INTRODUCTION

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 Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Merseyside Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in the relevant regulatory provisions, the funding regime or the ISS.

### BENEFITS

The LGPS is a defined benefit arrangement with final salary related benefits relating to membership 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. As the benefits are guaranteed by statute, the pension promise is secure and the FSS is a transparent mechanism to fund the benefits over the long term.

### EMPLOYER / EMPLOYEE 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 the provision of a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution). Employers may also elect to make lump sum prepayments of contributions which could result in a cash saving over the valuation certificate period.



**PRIMARY RATE**

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits/insurance premium 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.

**SECONDARY RATE**

The “Secondary rate” is 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.

The contribution payable is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

# 2

## PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or 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 Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement 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 longer-term view of funding those liabilities;
- to establish contributions at an affordable cost to the employer and taxpayer which also "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. Whilst the position of individual employers must be reflected in the statement, including the disparate investment buckets, it must remain a single strategy for the Administering Authority to implement and maintain.

# 3

## AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND 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.
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

### THE PURPOSE OF THE FUND IS TO:

- 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.

# 4

## RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee and Local Pensions Board), the individual employers and the Fund Actuary, details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors.

### KEY PARTIES TO THE FSS

The **Administering Authority** 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 a FSS and an 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
- establish, 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.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are Deferred Employer
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- undertake administration duties in accordance with the Pension Administration Strategy.
- 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, additional pension contracts, 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 which may affect future funding
- 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 would normally result in employer paying higher contributions than otherwise would be the case if the data was of high quality
- understand the pensions impacts of any changes to their organisational structure and service delivery model.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their FSS, ISS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice to the Administering Authority and valuations on the termination of admission agreements including exit credit payments
- provide advice to the Administering Authority on 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 the Administering Authority on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS
- 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.

# 5

## 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 liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

### SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these 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 relating to the Fund.

### DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**.

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.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. 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 and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation.

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits / ill health premiums and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments)

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Employers may also elect to make lump sum prepayments of contributions which could result in a cash saving over the valuation certificate period.

#### DEFICIT RECOVERY CONTRIBUTIONS

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

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. 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, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable.

The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength. 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, and 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 or the run off of any surplus are as follows:

- 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 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.
- 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.
- Employers will 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. The average recovery period adopted by all employers will be set out within the Actuary's report. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.
- 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.
- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, depending on affordability of contributions as determined by the administering authority and the assessment of an individual employer's covenant strength. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, 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.
- 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.

- 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 2020/2023. 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 weaker 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.

Other considerations in relation to specific employers are as follows:

- LEA schools and certain other employers within the Fund have been grouped with the respective Council.
- Academies are treated as separate employers but at inception any past service deficit is allocated on an equitable basis consistent with the relevant LEA schools.
- 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.
- Any stabilisation methods requested by a contractor will need to be agreed with the original Scheme Employer before being implemented.
- 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.
- For employers that do not have a financial year end of 31 March 2020 (e.g. if they instead have a 31 July 2020 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 2020 in this example).

Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

## EMPLOYERS EXITING THE FUND

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit.

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment with a different actuarial basis applied to reflect whether the outgoing employer has a guarantor participating in the Fund who is prepared to absorb the pension obligations of the former employees. The detail is provided in the Termination Policy at Appendix B which covers operational procedure (including details of repayment plans over an agreed period and Deferred Debt Agreements).

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

## EMPLOYERS WITH NO GUARANTOR OR BOND IN PLACE

For those employers (who are not Scheduled bodies) and who have no guarantor or bond arrangements in place, a higher funding target will be adopted. The contribution rate for these employers will be determined to target a funding position of 120% for the liabilities of the current active membership. The funding target for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

## FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in exceptional circumstances by agreement with the Fund, through instalments over a period not exceeding 5 years or if less, the remaining period of the body's membership of the Fund.

## FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. To the extent that a strain does occur, this will serve to increase the deficit at the next actuarial valuation (with the exception of those employers that take part in the captive arrangement who will be immunised against the strain in return for the premiums paid). However, where an employer exits the Fund in the inter-valuation period the outstanding ill health retirement strain costs will be included when the Actuary completes the termination assessment.

## FUNDING FOR DEATHS IN SERVICE AND RETIREMENT

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. As for ill health cases, any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer exits the scheme and any necessary adjustment will be taken into account when the Actuary determines the termination position.

# 6

## 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 as described below, 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.

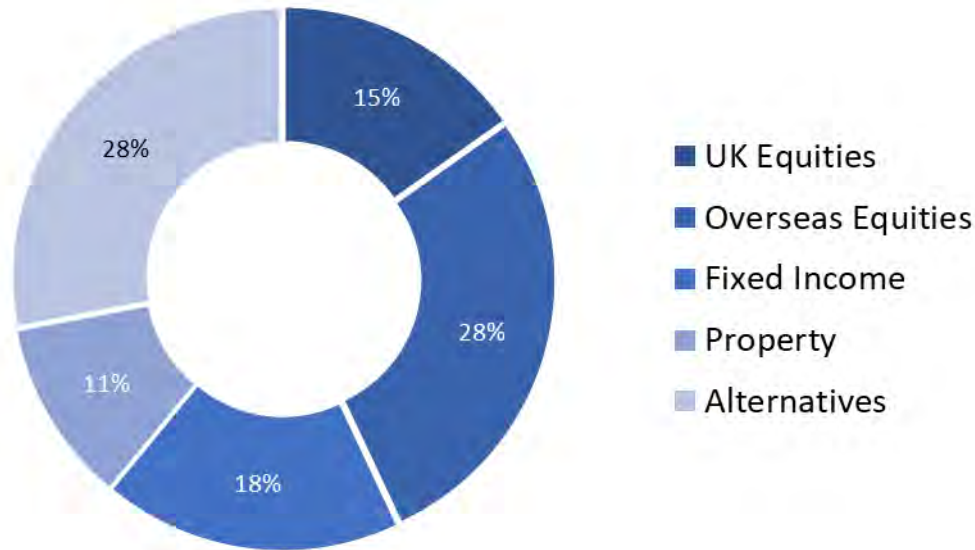
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of minus 1% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 63%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance. The overall strategic asset allocation is set out in the Investment Strategy Statement.

The current investment strategy is:



Further information on the investment strategy can be found in the ISS.

Based on the investment strategy above and the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 2.7% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance. This margin however, has been reduced to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy.

## RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of risk management techniques which cover the total Fund and/or specific employers. In particular:

- **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.

The principal aim of these risk management techniques is to effectively look to provide more certainty of real investment returns vs CPI inflation and/or protect against volatility in the termination position. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. Further details of the framework will be included in further updates of the FSS and ISS.

## INVESTMENT STRATEGY BUCKETS

The Fund has implemented a choice of “investment strategy” buckets for employers with effect from 1 April 2017. These are called:

- Higher risk bucket
- Medium risk bucket
- Lower risk bucket

The current Fund investment strategy will apply to the “higher risk bucket”. The “medium risk bucket” and “lower risk bucket” will give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket’s investment strategy generally has a lower weighting to growth assets than the higher risk strategy and therefore a lower expected volatility of returns. This strategy will vary over time depending on the returns on the different portfolios and will be reviewed and rebalanced in the future as part of a review of the investment strategy.

The lower risk bucket will be made up of an investment strategy linked to income generating assets (including corporate bonds and infrastructure) and liability driven investments (LDI) which fully hedges interest and inflation exposure, which targets a return, allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

The strategic asset allocation for all buckets is set out in the Investment Strategy Statement or the separate employer booklet covering the differential strategies. Any employer’s whose strategy deviates on a bespoke basis will be separately notified.

The choice of bucket is reflected in the relevant employer’s asset share, funding basis and contribution requirements.

If, based on the assessments carried out by the Administering Authority, the employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move the employer (typically following discussions with the employer) into the medium or lower risk investment strategy to protect the Fund as a whole and therefore taxpayers. Note where an employer moves into a different investment bucket there may be costs associated with a transition of assets. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share. For the avoidance of doubt this includes on termination of participation in the Fund.



# 7

## IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. 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

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- 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 or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

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 in each separate investment bucket) is kept under regular review and the performance of the investment managers is regularly monitored.

### DEMOGRAPHIC

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- 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 resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly 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. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These, in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are administered properly, can help control exposure to this demographic risk. The Fund’s ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix E).

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.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

## INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. More detail on how the Fund is implementing the captive insurance for ill health costs is set out in **Appendix E**.

## REGULATORY

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

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, copies have been circulated to all employing bodies for their comments and it has been reviewed by the Committee after the Fund and the Pension Board reviewed the feedback received from the employing bodies.

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
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

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. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

## PENSIONS COMMITTEE

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

The Pensions Committee is made up of fifteen voting representatives and Wirral Council, as the Administering Authority, nominates ten 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.

### Membership

The Pension Board is comprised of four voting 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 Merseyside Pension 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>

# 8

## MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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. However, the statement will be reviewed on an annual basis as a matter of course. 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 triennial 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
- there 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. In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

### REVIEW OF CONTRIBUTIONS

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now 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.

Consideration will be given to any risk sharing arrangements (e.g. cap and collar arrangements) when reviewing contribution rates. Further information is set out within the policy in Appendix C.

## COST MANAGEMENT AND THE MCCLOUD JUDGMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance here:

[http://www.lgpsboard.org/images/Other/Advice from the SAB on McCloud May 2019.pdf](http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf)

This sets out how the McCloud case should be allowed for within the 2019 valuation. As a consequence, cost management is expected to remain paused until the remedy is known and therefore no allowance has been made in this valuation. This will be reconsidered once the final outcomes are known.

The potential impact of the judgment (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Otherwise, they will need to make allowance within their budgets and note that backdated contributions would be payable if the remedy is known before the next valuation. Where employers do not confirm whether they will opt to include the estimated costs in their certified contributions, the default will be for the costs to be included in their contributions from 1 April 2020.

# APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

## 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.

## FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

### Investment return (discount rate)

The discount rate for the higher risk and medium risk buckets have been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate, consideration has been given to the returns in excess of CPI inflation (as derived below).

#### Higher Risk Investment Strategy Bucket

For employers in the higher risk investment bucket the discount rate at the valuation has been derived based on an assumed return of 1.75% per annum above CPI inflation i.e. a real return of 1.75% per annum and a total discount rate of 4.15% per annum.

#### Medium Risk Investment Strategy Bucket

For employers in the medium risk investment bucket the discount rate at the valuation has been derived based on an assumed return of 1.5% per annum above CPI inflation i.e. a real return of 1.5% per annum and a total discount rate of 3.9% per annum.

#### Lower Risk Investment Strategy Bucket

For any participating employers in the lower risk investment bucket, the discount rate is linked to the yield available on the lower risk assets within the strategy, less any appropriate margins to allow for asset default, reinvestment risk and expenses – in particular under the termination policy when certain employers terminate participation in the Fund. This is updated on a regular basis when assessing the termination position for outgoing employers.

At the valuation date the discount rate used for terminations was CPI inflation less 0.1% per annum to determine the liabilities.



As well as a formal review at each valuation the discount rate for all buckets will be reviewed from time-to-time, based on the investment strategy, market outlook and the Fund's overall risk metrics.

### **Inflation (Consumer Prices Index)**

The inflation assumption will be taken to be the investment market's expectation for RPI inflation 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 Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor of the Exchequer. The adjustment to the RPI inflation assumption may vary between each of the investment buckets and by termination basis where appropriate, to allow for RPI reform and an inflation risk premium reflecting adjustment to the market implied RPI inflation rate.

### **Salary increases**

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

In addition to the long term salary increase assumption, allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied depending on employer type for each year from the valuation date up to 31 March 2023. These will be notified to each employer as part of the communication of their results but are subject to a minimum of 2% per annum. Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

### **Pension increases/Indexation of CARE benefits**

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

## DEMOGRAPHIC ASSUMPTIONS

### Mortality/Life Expectancy

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), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. 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 accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum.

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

### Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. 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.

### Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption 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. Other assumptions are as per the last valuation.

### Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition 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.

## 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, 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.

**Higher risk investment bucket**

For employers in the higher risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

**Medium risk investment bucket**

For employers in the medium risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

**Lower risk investment bucket**

For participating employers with active members in the lower risk investment bucket, the financial assumptions in relation to future service (i.e. the primary rate) are the same as the financial assumptions used to calculate the past service liabilities.

**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 when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer in each of the investment buckets, a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (taking account of the respective investment buckets) unless agreed otherwise 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. The investment return credited will depend on which investment bucket the employers' assets are in.

Other 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.

## SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2019 ACTUARIAL VALUATION

| Long-term yields                              |  |  |
|---|--|--|
|   | Market implied RPI inflation                         | 3.40% p.a.   |
| Solvency Funding Target financial assumptions |  |  |
|   | Investment return/Discount Rate (Higher Risk Bucket) | 4.15% p.a.   |
|   | CPI price inflation                                  | 2.40% p.a.   |
|   | Short Term Salary Increases                          | Varies by employer - 4 year period to 31 March 2023 as noted above |
|   | Long Term Salary increases                           | 3.90% p.a.   |
|   | Pension increases/indexation of CARE benefits        | 2.40% p.a.   |
| Future service accrual financial assumptions  |  |  |
|   | Investment return/Discount Rate (Higher Risk Bucket) | 4.65% p.a.   |
|   | CPI price inflation                                  | 2.40% p.a.   |
|   | Short Term Salary Increases                          | Varies by employer - 4 year period to 31 March 2023 as noted above |
|   | Long Term Salary increases                           | 3.90% p.a.   |
|   | Pension increases/indexation of CARE benefits        | 2.40% p.a.   |

## LIFE EXPECTANCY ASSUMPTIONS

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

### Post retirement mortality tables

| Current Status          | Retirement Type  | Mortality Table  |
|-------------------------|------------------|--|
| <b>Annuitant</b>        | Normal Health    | 124% S3PMA_CMI_2018 [1.75%]<br>104% S3PFA_M_CMI_2018 [1.75%] |
|                         | Dependant        | 164% S3PMA_CMI_2018 [1.75%]<br>108% S3DFA_CMI_2018 [1.75%]   |
|                         | Ill Health       | 150% S3IMA_CMI_2018 [1.75%]<br>145% S3IFA_CMI_2018 [1.75%]   |
|                         | Future Dependant | 159% S3PMA_CMI_2018 [1.75%]<br>127% S3DFA_CMI_2018 [1.75%]   |
| <b>Active</b>           | Normal Health    | 131% S3PMA_CMI_2018 [1.75%]<br>106% S3PFA_M_CMI_2018 [1.75%] |
|                         | Ill Health       | 142% S3IMA_CMI_2018 [1.75%]<br>157% S3IFA_CMI_2018 [1.75%]   |
| <b>Deferred</b>         | All              | 158% S3PMA_CMI_2018 [1.75%]<br>123% S3PFA_M_CMI_2018 [1.75%] |
| <b>Future Dependant</b> | Dependant        | 168% S3PMA_CMI_2018 [1.75%]<br>132% S3DFA_CMI_2018 [1.75%]   |

## Life expectancies at age 65

| Membership Category   | Male Life Expectancy at 65 | Female Life Expectancy at 65 |
|-----------------------|----------------------------|------------------------------|
| Pensioners            | 20.8                       | 23.9                         |
| Actives aged 45 now   | 22.4                       | 25.8                         |
| Deferreds aged 45 now | 21.0                       | 24.7                         |

Other demographic assumptions are set out in the Actuary's formal report

# APPENDIX B - TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

## EXITING THE FUND

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

#### ASSUMPTIONS TO ADOPT FOR THE TERMINATION ASSESSMENT

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this 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.

Where it may be appropriate to use a more cautious basis, the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets (including corporate bonds and infrastructure) and liability driven investments (LDI) (which fully hedges interest and inflation exposure), which make up the lower risk investment "bucket" at the time of assessment. A reasonable adjustment will be made for expenses plus reinvestment and default risk in relation to the assets held.

For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the higher or medium risk investment strategy bucket. The Administering Authority retains the discretion to adopt a different approach for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2.25% per annum for males and females.

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and 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.

In summary, depending on the employer type, participation basis 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. 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.
2. Assessing the final liabilities using a discount rate which is linked to the lower risk investment "bucket". As part of this assessment the Actuary will:
  - Use a deduction from 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. This will vary dependent on market conditions and the assets held in the lower risk bucket.
  - In addition, since the valuation date, it has been announced that RPI inflation will move to be in line with the CPIH inflation measure with effect from 2030. This therefore needs to be reflected when deriving an updated market estimate of CPI inflation. For example when assessing a termination position at January 2021 we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.4% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position on the lower risk basis. This adjustment will be kept under review over time.
  - However, this does not provide against future adverse demographic experience relative to the assumptions which could emerge at future valuations. This risk is managed by including a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers. The termination basis for an outgoing employer currently includes an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from those used in the 2019 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.
  - There may 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.
3. Assessing the final liabilities using a discount rate which is based on a "minimum risk" approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities and a more prudent inflation and mortality assumption as above. 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. 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.



## APPROACH TO ADOPT FOR EACH EMPLOYER TYPE

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of admission as follows:-

### (I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

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 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.

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 completion of the final cessation by the Actuary.
- 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 at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of the 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.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is 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 as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations 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.

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium or low risk asset bucket. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. 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 below 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 Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on the representations from the interested parties. For the avoidance of doubt in the case of an Exit Credit the determination process will be followed as set out above.

## **(II) NON-CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN THE FUND**

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

## **(III) ADMISSION BODIES WITH NO GUARANTOR IN THE FUND**

These are cases where the residual liabilities would be "orphaned" within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although the approach in 3. above could apply at the discretion of the Administering Authority.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- 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 completion of the cessation by the Actuary). 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 an immediate 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. 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.

## ALLOWING FOR THE MCCLOUD JUDGMENT IN TERMINATION VALUATIONS

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in employer rates at this valuation. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included. Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. 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. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

## POLICY IN RELATION TO THE FLEXIBILITY FOR EXIT DEBT PAYMENTS 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). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this 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 taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

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 published 2 March 2021.

## **POLICY FOR SPREADING EXIT PAYMENTS**

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

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. 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. This 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).
  - 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, legal 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

As opposed to paying the exit debt 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 would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing 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 exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a Deferred Debt Agreement 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 Deferred Debt Agreement using the template Fund agreement 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:
  - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won’t enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
  - The investment strategy that would be applied to the employer e.g. the higher, medium or lower risk strategy which could support the arrangement.

- Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
- What the updated secondary rate of contributions would be required up to the next valuation.
- 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.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the deferred debt agreement (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.
- 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 Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

# APPENDIX C – REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

In line with the Regulations that came into force on 23<sup>rd</sup> September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now 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 and employers will be notified if the Administering Authority becomes aware of any of the following scenarios.



## 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
- 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 a) 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 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 this 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.

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.

In this instance, 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.

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.

## 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 advisors.

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 contribution 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 bucket, medium risk bucket, lower risk bucket or the termination strategy) in line with the Funding Strategy Statement.
- 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 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 D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of 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
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

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 vital.

## RISK CRITERIA

The assessment criteria upon which an employer 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 flexibility
- Employer's credit rating

Position of the economy as a whole

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 employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically 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 order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

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

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, 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 will be monitored (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, but more realistically with a quarterly focus.

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 and the Administering Authority will set out the requirements.

## 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 actuarial basis and investment strategy (e.g. the termination 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 E - INSURANCE ARRANGEMENTS

## OVERVIEW OF ARRANGEMENT

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.

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 2020/23 is 1% 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 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 be included in the captive are Academies, Community related Admitted Bodies, Contract related Admitted Bodies (where the guarantor is also in the captive arrangement) and Designating/Resolution Bodies. These employers will be notified of their participation. New employers entering the Fund who fall into this category will also be included.

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.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.



# APPENDIX F - 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.

**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.

**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 differs from those of RPI. These goods are 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.

**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.

**Discount Rate:** the rate of interest used to convert a future cash amount e.g. a benefit payment occurring in the future to a present value.

**Employer Covenant:** the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

**Employer's Future Service Contribution Rate (Primary Rate):** the contribution rate payable by an employer, expressed as a % of pensionable pay, as being 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.

**Employer's Secondary Contribution Rate:** 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. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

**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 in the case 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 Strategy Statement:** this is a key governance document that outlines how the Administering Authority will manage employer's contributions 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.

**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 immunise 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. 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.

**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 eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**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.

**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 compared to the certified amount to reflect the early payment.

**Present Value:** the value of projected benefit payments, discounted back to the valuation date.

**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 vs 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 requires the assumptions adopted for an actuarial valuation to be prudent.

**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 2019 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers.

**Section 13 Valuation:** in accordance with Section 13 of the Public Service Pensions Act 2013, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**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 past service liabilities assessed on the ongoing concern basis.

**50/50 Scheme:** in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

A decorative graphic consisting of a grid of red squares, some of which are missing, creating a pattern that resembles a stylized 'M' or a series of vertical bars. The squares are arranged in a way that they appear to be receding into the distance, creating a sense of depth.

# Merseyside Pension Fund **Governance Policy**



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# Introduction

This statement sets out the scheme of delegation, the terms of reference, structure and operational procedures of the delegation.

## Relationship of Merseyside Pension Fund and Wirral Council

Wirral Council is the administering authority of the Merseyside Pension Fund under the Local Government Pension Scheme Regulations 2013 and is the Scheme Manager as defined by Section 4 of the Public Service Pension Act 2013. In its capacity as Scheme Manager the council is authorised to manage the Pension Fund's assets and liabilities and carry out any other specified activities associated with the operation of the Scheme. The authority is not authorised to give investment advice.

Due to this status, the Fund is not required to be regulated by the Financial Conduct Authority (FCA) in order to operate its business. It is regulated by the Ministry of Housing, Communities and Local Government (MHCLG).

As an administering authority, Wirral Council is required to act as if the Fund were set up under trust with the authority itself as the sole trustee, although the assets are not trust assets in the legal sense.

## Scheme of Delegation of (Non-Executive) Functions to Committees

Under its Constitution, the council delegates, under Section 101 of the Local Government Act 1972 to Pensions Committee all those non-Executive functions vested in it, identified in the terms of reference for the Committee (see page 5).

The scheme delegates powers and duties within broad functional descriptions and includes powers and duties under all legislation present and future within those descriptions and all powers and duties including any statutory re-enactment or moderation of the legislation referred to in this scheme.

Any exercise or responsibility for functions or delegated powers shall comply with:

- any statutory requirements;
- the Council's Constitution;
- the Council's Budget and Policy Framework and approved budget;
- the Members' Code of Conduct;
- the Code of Recommended Practice on local authority publicity;
- the agreed arrangements for recording decisions;

This scheme does not delegate any matters reserved by law to the full Council or assigned to the Executive.

# Pensions Committee

## Membership

The Committee is comprised of fifteen voting members; ten of whom are members of Wirral Council, four members from the other local authorities and one member representing the other employing organisations in the Fund. Three trade union representatives, with observer status, are invited and represent active, deferred and pensioner members.

## Terms of Reference

1. To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of Merseyside Pension Fund, and in particular the following:
2. To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.
3. To appoint and terminate professional advisors to, and external managers of, the Fund and agree the basis for their commission and remuneration.
4. To receive actuarial valuations of the Fund and determine the level of employers' contributions necessary to balance the Fund.
5. To monitor the Local Government Pension Scheme Regulations and overriding pension law, overseeing the governance of the Fund including the day to day administration and policy decisions relating to the management of the Scheme.
6. To consider any views expressed by employing organisations, staff representatives and other stakeholders relating to the Fund.
7. To appoint members of the Investment Monitoring Working Party, which shall have responsibility for reviewing the performance of the Fund's investments, and its asset allocation and regularly reporting their findings to the Pensions Committee.
8. To appoint members of the Governance and Risk Working Party, which shall have responsibility for reviewing governance and risk issues, and regularly reporting their findings to the Pensions Committee.
9. To award contracts for goods and services relating to the Fund in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisors (where appropriate).

# Local Pension Board

The Local 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 as issued by the Scheme Advisory Board.

## Membership

The Pension Board is comprised of four voting 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 Merseyside Pension Fund and have the capacity to represent Scheme members of the Fund.

The Pension Board is chaired by an independent non-voting member with 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 these matters and, accordingly, the Pension Board is not a decision-making body in relation to the management of the Pension Fund but merely makes recommendations to assist in such management.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed at: [mpfund.uk/pensionboard](http://mpfund.uk/pensionboard)

# Joint Governance Committee

## Membership

The membership of the Joint Governance Committee shall consist of the chair and deputy-chair of each of the Pooling Partners' Pensions Committees or such alternative persons nominated by the Pooling Partners.

In addition, up to three trade union representatives may be appointed after being nominated by the Trades Union Council and subject to the agreement of the Pooling Partners.

## Terms of Reference

The primary purposes of the Joint Committee are to:

1. exercise oversight over the investment performance of the Pooling Partners' Funds
2. deliver the Shared Objectives
3. agree on any recommended changes to the Shared Objectives
4. report to the Pool

# Scheme of Delegation of Functions to Officers

## Director of Pensions

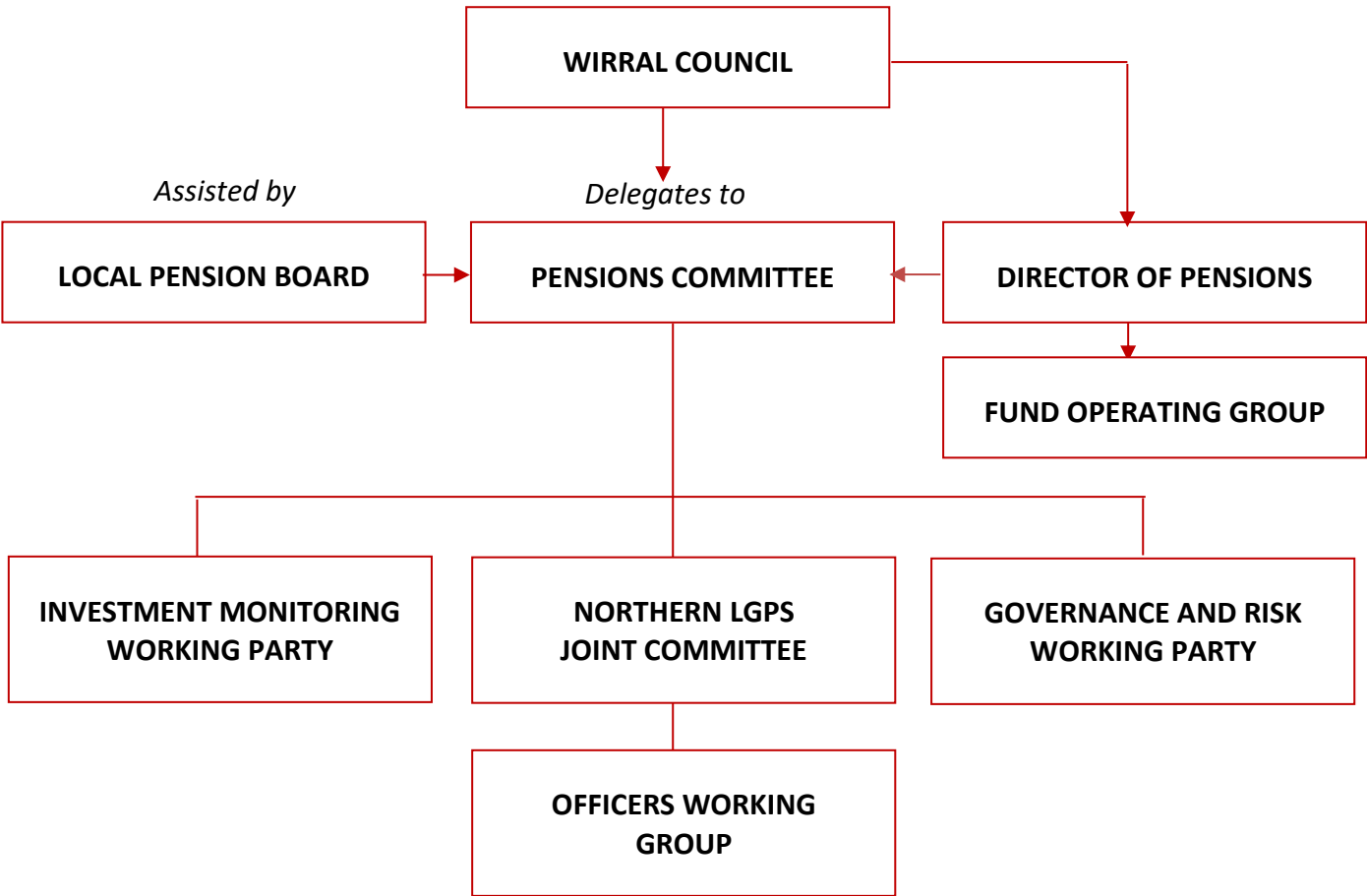
The following functions, particular to the Pension Fund, are delegated to the Director of Pensions pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

Undertake all day to day administration of, and investment decisions for, the Merseyside Pension Fund within the policy laid down by the Pensions Committee including the authorisation of admission agreements with contractor admission bodies pursuant to Best Value arrangements, as required by the Local Government Pensions Scheme Regulations.

Terminate a contract of an external investment manager and enter into any consequential arrangements for the transitional management of the Fund's investments pending the decision of the Pensions Committee on the award of a new contract.

The Director of Pensions may authorise officers in his department to exercise on his behalf, functions delegated to him. Any decisions taken under this authority shall remain the responsibility of the Head of Pension Fund and must be taken in his name, and he shall remain accountable and responsible for such decisions.

# Governance Structure



# Functions

The functions for the various elements are as follows:

## **Pensions Committee**

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of the County of Merseyside Pension Fund.

## **Local Pension Board (LPB)**

To assist the Scheme Manager in complying with the Scheme Regulations and other regulations relating to the governance and administration of the Scheme.

## **Investment Monitoring Working Party (IMWP)**

Has responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.

## **Governance and Risk Working Party (GRWP)**

Has responsibility for reviewing governance and risk issues and regularly reporting their findings to the Pension Committee.

## **Fund Operating Group (FOG)**

Forum for formal monthly reports to the Director of Pensions on the day-to-day operations of the Fund.

## **Director of Pensions**

Responsible to the Strategic Director of Finance & Investment and has delegated authority to make investments or to delegate to other employees investment decisions in accordance with the Fund's strategic benchmark and delegated dealing limits.

## **Northern LGPS Joint Committee**

The partner funds of the Northern LGPS Investment Pool (Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund) have formed a Joint Committee to oversee the activities of the Pool.

## **Officer Working Group (OWG)**

The OWG consists of the Directors of the Pooling Partners supported by officers of the Pooling Partners as required. This role is to provide a central resource for advice, guidance and support for the Joint Governance Committee.



# Accountability and Publication of Information

Details of Pensions Committee and Pension Board meetings are published on the Wirral Council website together with agendas, reports to be considered by the Committee and Board and minutes of proceedings. Details of Northern LGPS Joint Committee meetings are published on the Tameside Council website together with agendas, reports to be considered by the Committee and minutes of proceedings.

Meetings of both the Pensions Committee and Local Pension Board are open to the public.

An Annual Pension Fund Report & Accounts is published and circulated to all employing bodies reporting on the activities and investment performance of the Fund during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Fund website.

## Meetings with Stakeholders

An Annual Employer Conference is held to which all Fund employers and members of the Pensions Committee and Pension Board are invited to attend. The annual conference is an opportunity for employers to question and challenge officers and elected members on matters of interest to their authorities and organisations.

The Fund also holds other meetings as required with Employers to discuss important issues such as the Funding Strategy which underpins the actuarial valuation of the Fund and determines both employers' liabilities and contribution schedules.

## Compliance Statement

The Fund fully complies with the best practice guidelines on governance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and details can be found at **Annex 2** attached.

# Annex 1

## Training and Expenses Policy for Members of Pension Committee and Local Pension Board

### Introduction

1.1 Myners' first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

1.2 Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities and should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.

### Legal Considerations

2.1 Elected members have a fiduciary responsibility to the Fund, Scheme members and local council tax payers in relation to the Local Government Pension Scheme. They can delegate functions to officers but they retain overall responsibility for the management of the Fund and its investment strategy.

2.2 Administering authorities are required to take proper advice to enable them to fulfil their obligations under the above regulations. 'Proper advice' is defined in the regulations as 'the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters....'

2.3 The Local Pension Board (LPB) has a statutory duty under the Public Service Pension Act 2013 to be conversant with the rules of the Scheme and to discharge their responsibilities as set out in the Pension Regulator's Code of Practice No 14 and to comply with the Knowledge and Understanding Policy specific to Wirral Pension Board.

### Training Policy and Plan

3.1 The Fund has had regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in drawing up this policy to ensure that all those involved in the decision-making and oversight process receive all relevant training required to properly discharge their responsibilities

3.2 The Fund arranges an annual programme of external and internal training events throughout the year designed to meet the requirements of new members of the Committee and the LPB along with the ongoing needs of existing members.

3.3 These events are reported, formally, to Members of Pensions Committee and the LPB on an annual basis. Individual reports, to authorise attendance at these events are put to Committee on an event-by-event basis. Attendance of training events for the LPB is as agreed by the Independent Chair and the Director of Pensions.

### **Policy for Payment of Expenses**

4.1 The Fund will reimburse all reasonable costs and expenses incurred in undertaking approved training for all members of the Pensions Committee and LPB.

4.2 Claims should be submitted to the Fund and supported by an official receipt.

4.3 Members serving on the Committee from other local authorities or organisations may choose to continue to claim any such expenses from these bodies instead if they prefer.

# Annex 2

## Merseyside Pension Fund Governance Compliance Statement

| Part                       | Governance Requirement   | Fully Compliant |
|----------------------------|--|-----------------|
| <b>II/A Structure</b>      |  |                 |
| a.                         | The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.  | Yes             |
| b.                         | That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.  | Yes             |
| c.                         | That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.  | Yes             |
| d.                         | That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.   | Yes             |
| <b>II/B Representation</b> |  |                 |
| a.                         | That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- <ul style="list-style-type: none"> <li>i) employing authorities (including non-Scheme employers, e.g. admitted bodies);</li> <li>ii) Scheme members (including deferred and pensioner Scheme members),</li> <li>iii) independent professional observers, and</li> <li>iv) expert advisors (on an ad-hoc basis).</li> </ul> | Yes             |

- |    |   |     |
|----|---|-----|
| b. | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Yes |
|----|---|-----|

## **II/C Selection and role of lay members**

- |    |   |     |
|----|---|-----|
| a. | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Yes |
|----|---|-----|

## **II/D Voting**

- |    |  |     |
|----|--|-----|
| a. | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Yes |
|----|--|-----|

Following consultation undertaken with all stakeholders groups during 2008 the Fund confirmed that it believes its current representation and voting arrangements are appropriate to ensure good governance.

Although they do not have voting rights the three trade union members representing the interests of active, pensioner and deferred members are able to play a full role in all aspects of the Governance of the Fund, including attendance at the Pension Committee and Investment Monitoring Working Party. They receive copies of all reports and are included in all training and briefings.

## **II/E Training/Facility time/Expenses**

- |    |  |     |
|----|--|-----|
| a. | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Yes |
| b. | That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.  | Yes |

## **II/F Meetings (frequency/quorum)**

- |    |   |     |
|----|---|-----|
| a. | That an administering authority's main committee or committees meet at least quarterly.   | Yes |
| b. | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.  | Yes |
| c. | That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Yes |

## **II/G Access**

- |    |  |     |
|----|--|-----|
| a. | That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Yes |
|----|--|-----|

## **II/H Scope**

- |    |   |     |
|----|---|-----|
| a. | That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements. | Yes |
|----|---|-----|

## **II/I Publicity**

- |    |  |     |
|----|--|-----|
| a. | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements. | Yes |
|----|--|-----|

Merseyside Pension Fund  
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Liverpool  
L2 9SH

Telephone:

0151 242 1390

Email:

[mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

Members' Website

[mpfmembers.org.uk](http://mpfmembers.org.uk)

Employers' Website

[mpfemployers.org.uk](http://mpfemployers.org.uk)

Opening Times:

Mon. to Fri. 9am - 5pm



A decorative graphic consisting of numerous blue squares of varying sizes, arranged in a grid-like pattern that appears to be receding into the distance, creating a sense of depth and perspective. The squares are arranged in a way that they form a series of parallel lines that converge towards the horizon.

# Merseyside Pension Fund

# **Investment Strategy Statement**



## Introduction

This Investment Strategy Statement has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential “downside” effects of financial market volatility.

## Investment Strategies

The Fund has implemented a choice of investment strategies (“investment buckets”) for employers. These are:

- Higher risk
- Medium risk
- Lower risk

The main Fund investment strategy applies to the “higher risk bucket”. The “medium risk bucket” and “lower risk bucket” give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket’s initial investment strategy is 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the main Fund investment strategy but in the different proportions.

The lower risk bucket is made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, re-investment risk and any other reasonable margins of prudence deemed appropriate.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund’s strategic asset allocation in the table below.

## Strategic Asset Structure

| Asset Class              | Strategic Benchmark % | Detail % | Control Range    |
|--------------------------|-----------------------|----------|------------------|
| <b>Equities</b>          |                       |          | <b>48.0-58.0</b> |
| <b>UK Equities</b>       | <b>15.2</b>           |          | <b>38.0-53.0</b> |
| <b>Overseas Equities</b> | <b>27.8</b>           |          |                  |
| US                       |                       | 4.3      |                  |
| European (ex UK)         |                       | 6.5      |                  |
| Japan                    |                       | 3.2      |                  |
| Asia Pacific             |                       | 3.2      |                  |
| Emerging Markets Global  | <b>5.7</b>            | 4.9      | <b>12.0-22.0</b> |
| <b>Fixed Income</b>      | <b>17</b>             |          | <b>13.0-23.0</b> |
| UK Gilts                 |                       | 4        |                  |
| UK Indexed Linked Gilts  |                       | 9        |                  |
| Corporate Bonds          |                       | 4        | <b>8.0-14.0</b>  |
| <b>Property</b>          | <b>11</b>             |          | <b>5.0-11.0</b>  |
| <b>Alternatives</b>      |                       | 28       | <b>23.0-33.0</b> |
| Private Equity           |                       | 6        |                  |
| Hedge Funds              |                       | 4        |                  |
| Opportunistic Credit     |                       | 7        |                  |
| Infrastructure           |                       | 11       |                  |
| Cash                     |                       | 1        | <b>0.0-6.0</b>   |
| <b>Total</b>             | <b>100</b>            |          |                  |

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Investment Consultant and Independent Advisors under the auspices of its Medium-Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The Fund's investment strategy is underpinned by certain core philosophies pertaining to individual asset classes *inter alia*:

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets
- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments
- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk
- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited.

- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term.

The Fund has written investment philosophies for each of the internally managed portfolios which derive from the core philosophies above.

Under the triennial review the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;
- To maintain sufficient assets to pay all benefits as they arise;
- To implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;
- To provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

The Fund's Investment Consultant provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

In addition to providing a review of the Fund's investment strategy, the Investment Consultant also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter-term strategic time horizon, the Investment Consultant also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium-Term Tactical Asset Allocation framework in which the Investment Consultant advises and makes recommendations on the magnitude of medium-term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

## **The suitability of particular investments and types of investments**

The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed regularly by the Fund's Investment Management Working Party (IMWP) and its Independent Advisors to ensure that returns, risk and volatility are all

appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Investment Consultant undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A report is produced by the Investment Consultant and presented to the IMWP on a quarterly basis for discussion.

## **The approach to risk, including the ways in which risks are to be measured and managed**

The Fund has a clearly determined approach to its risk tolerance subject to the principal objective of maximising the returns from its global investment activities within reasonable risk parameters.

Accordingly, the Fund's Actuary has identified the following key risks:

- Investment markets fail to perform in line with expectations
- Market yields move 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 is significantly higher than anticipated
- Longevity continues to increase at a greater rate than anticipated
- Regulatory changes
- Changes to national pension requirements and/or HM Revenue & Customs (HMRC) rules

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Investment Consultant to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets.

In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets such as property, private equity, private credit, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

This is designed to provide the fund with a proxy insurance policy against major financial market dislocations.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by correcting positions created by market movements on a quarterly basis in accordance with the strategic advice of its Investment Consultant and discussions with its Independent Advisors.

## The Fund's approach to pooling investments including the use of collective investment vehicles and shared services

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern LGPS ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government (now MHCLG) provided confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.4bn, which is in excess of the £25bn criterion set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete.

The principal benefits of pooling for the funds in the Northern LGPS are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. Following detailed discussions and consideration of professional advice, it was agreed in March 2017 by each of the participating funds that in order to meet the Reduced Costs and Excellent Value for Money criterion set by Government most effectively, the Northern LGPS should focus on collective investment in private market assets such as private equity and direct infrastructure. Subject to value for money requirements being fulfilled, private equity and direct infrastructure investments would be made via joint ventures and partnerships to enable material cost savings from an early stage. Such structures would in all cases be compliant with relevant financial services law. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

The Scale and Strong Governance and Decision-Making criteria are met by:

- i) a Joint Committee providing monitoring and oversight of the operations of the Northern LGPS with the Joint Committee constituted so as to separate elected members from any manager selection decisions and;
- ii) appointing an FCA regulated common custodian for the Pool, which has custody of all the pool's actively managed listed assets (i.e. internally and externally managed equities and bonds) and acts as master record-keeper for all pool assets.

Strategic asset allocation will continue to be set by each fund's pension committee with the selection of individual investments and investment managers for external mandates carried out on a pooled basis by appropriately qualified and experienced officers, operating under the legal framework of specialist investment vehicles where appropriate.

All public-market assets and new commitments to private equity and direct infrastructure will be monitored and overseen by the Northern LGPS Joint Committee with all assets other than day-to-day cash used for scheme administration purposes being held under the common custody agreement. Day-to-day cash is assumed to be 1% of total assets for each fund.

It is intended that the Pool will procure the following services, as required, on behalf of the participating funds

- External fund management for public-market mandates
- Common custodian for Pool
- Investment management systems
- Performance analytics
- Responsible Investment advisory services
- Other professional advice

The Northern LGPS Joint Committee is created via the approval of an inter-authority agreement between the administering authorities to the participating funds. The role of the Joint Committee is to:

- i) provide monitoring and oversight of the Northern LGPS to ensure that the pool is effectively implementing the participating authorities' strategic asset allocation decisions;
- ii) oversee reporting to the participating authorities' pension committees.
- iii) act as a forum for the participating authorities to express the views of their pension committees;
- iv) ensure segregation of duties in investment decision-making between elected members and officers;
- v) monitor performance of portfolios;
- vi) monitor the appointment of investment managers

Reporting processes of the Northern LGPS include regular written reports on the performance of Northern LGPS investments to the Joint Committee, which are discussed at formal meetings. The Joint Committee will not be undertaking any regulated activities.

The Northern LGPS' governing documentation grants the Joint Committee and each administering authority certain powers regarding the operation of the Northern LGPS, which can be used to ensure the effective performance of Northern LGPS. MPF's approach to pooling, set out above, will be reviewed periodically to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

A report on the progress of asset transfers will be made to the Scheme Advisory Board on at least an annual basis.



## How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

Merseyside Pension Fund pursues a policy of Responsible Investment (RI), arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected.

Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all of its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system.

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates.

The Fund evaluates and monitors the RI capability of all of its investment managers, often with reference to industry standards of best practice. MPF is a signatory of the **Principles for Responsible Investment** and is committed to reporting on its implementation of these Principles and promoting them across the investment industry.

MPF does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government.

However, MPF considers that this does not necessarily preclude the use of ESG integration techniques, including screening, within particular mandates where the investment objective includes the optimisation of ESG-related risk and opportunity.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered through-out the governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.

MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a **'finance-first' investor**). Social impact or thematic investing may provide access to diverse opportunities, uncorrelated to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF's participating employers.

## The exercise of rights (including voting rights) attaching to investments

MPF considers that practising responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership.

The practice of stewardship is closely aligned to MPF's duty to act in the best interests of all of its stakeholders. The Fund is a signatory to the UK Stewardship Code for Institutional Investors and has published a Statement of Compliance with its seven principles.

MPF's policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund).

In accessing any co-mingled investment vehicle with the objective of matching the performance of a stock market index, the Fund will expect the manager to implement its voting instructions over the underlying securities on a pro rata basis.

The Fund implements its voting policy in partnership with a specialist advisor (currently **PIRC Ltd**) who provides appropriate research and vote execution services that cover the major markets in which shares with voting rights are held.

MPF votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party. A summary of voting activity forms part of the Fund's Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company's recommendation, is made publicly available through the **Fund's website**.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio.

As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the **Local Authority Pension Fund Forum**, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity.

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Merseyside Pension Fund

# **Pensions Administration Strategy**

This document has been presented, considered and approved by Pensions Committee on **13 November 2017**, following consultation with all employers and the Local Pension Board.

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# Introduction

This is the Pensions Administration Strategy of Merseyside Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Wirral Borough Council (the administering authority)

The LGPS Regulations 2013 allow Administering Authorities to prepare a Pensions Administration Strategy (“the Strategy”) for the purpose of improving administrative processes in compliance with regulatory provisions and the Code of Practice No.14 as issued by the Pension Regulator (tPR).

The legislative framework outlines the statutory pension benefit information and services which the Fund must provide free of charge and allows funds to recover costs incurred as a result of unsatisfactory employer performance. It is also permissible to levy an administration charge for the provision of additional information not covered by the general maintenance allowance factored into the employer contribution rate.

The Fund has revised the Strategy to ensure adoption of best practice and compliance with standards set by the Pensions Regulator in regard to data quality, completeness and timeliness. Changes since 2013 in regard to the benefit structure, statutory time limits and the requirement for public service pension schemes to deliver efficiencies, necessitates the introduction of a schedule of charges for non-statutory administrative services and to recover costs incurred by the Fund as a consequence of an employer’s unsatisfactory performance .

This document has been developed in consultation with employers and the Local Pension Board with the purpose of setting out a framework outlining the policies and performance standards to be achieved to enable provision of a cost-effective and high-quality pension administration service.

A copy of this strategy is issued to each of the relevant employers as well as to the Secretary of State.



## **Review**

The Fund will review this policy document as required to reflect changes in regulations and Fund working practices. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

## **Aims**

The aim of this Strategy is to continue progress towards an automated pension service, employing appropriate technology to improve the quality of information, the speed of operational processing for employers and a more efficient service to members. The Strategy recognises that significant work will need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers will need to work in partnership to meet this challenge.

# Legislative Framework

## LGPS Regulations 2013

The Fund and its Employers must have regard to this Strategy when carrying out their Scheme functions and Regulation 59 sets out a number of requirements to facilitate best practice and efficient customer service in respect of the following;

The establishment of levels of performance which the administering authority and its Employers are expected to achieve in carrying out their Scheme functions

Ensuring the Fund and its Employers comply with statutory requirements in respect of those functions  
Improving the communication between the administering authority and its employers of information relating to those functions

The Strategy also sets out a schedule of additional administration charges by virtue of Regulation 4(5) of the **LGPS (Management and Investment of Funds) Regulations 2016** which provides scope for Funds to levy charges in circumstances where disproportionate costs are being incurred for additional administration tasks relating to individual members or specific employers.

In addition, the circumstances are outlined where financial penalties will be incurred with written notice provided to employers in accordance with Regulation 70 for recovery of fund costs as a result of unsatisfactory performance in carrying out its function as a scheme employer.

Levels of performance achieved will be reported as part of the Pension Administration Monitoring Report at each Local Pension Board meeting and documented in the Fund's Annual Report & Accounts.

# Key Objectives

The key objectives of this Strategy are to ensure that:

- the Fund and employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions;
- the fund operates in accordance with LGPS regulations and the Pension Regulator Code of Practice in demonstrating compliance and scheme governance;
- communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and partners;
- accurate records are maintained for the purpose of calculating pension entitlements and employer liabilities; ensuring all information and data is communicated accurately, on a timely basis and is secure and compliant;
- the Fund and employers have appropriate skills and that training is in place to deliver a high quality service;
- standards are set and monitored for the delivery of specified activities in accordance with the relevant regulations;
- administrative services are developed and delivered digitally in order to streamline processes and minimise service costs.

# Achieving the Objectives

The localism agenda to devolve power from central government control to boroughs has resulted in an increase to the Fund's employer base as local authorities transform service delivery together with the increase of maintained schools converting to Academy status.

The differing characteristics, size and required support of individual employers presents a significant logistical challenge to the management of information, processes and services within the Fund. It is clear that because of these differences a "one size fits all approach" would be unlikely to deliver a workable solution; however standard ways of operating applicable to different employer groups would realise benefits and cost efficiencies.

As the number of disparate employers continues to grow there is the need for more accurate and timely information to improve liability management at both the local and national level. In addition, the Pensions Regulator has introduced higher levels of compliance and the Fund will be required to demonstrate heightened governance and administrative efficiency.

There are four key elements necessary to achieving the Fund's administrative objectives:

- a)        Communications Policy
  - ensures members have accessible and timely information on all aspects of their pension benefits and informs decisions in respect of entitlements
  - enables employers to make effective decisions in the management of risks and liabilities as well as encouraging engagement in the wider pension debate
- b)        A training plan that will offer support to employers and continue to enhance staff knowledge and skills to ensure efficient administration compliant with the Pension Regulator requirements
- c)        An ICT development programme which will deliver high quality, efficient and integrated digital services to employers and members in an increasingly regulated and financially complex environment
- d)        A performance framework which will support the effective working of the Fund and enable both the Fund and Employers to deliver continuous improvement and move towards a higher standard of service

## Use of ICT

As part of its ICT development programme, the Fund has procured a comprehensive benefit and electronic document management system; this investment will enable the Fund to achieve a fully integrated self-service application for both employers and members. The new system creates the foundation to further digitalise the administration activities in the coming years.

At the time of writing, approximately 80% of active scheme membership is covered by electronic data submissions from employers. The Fund plans to achieve a digital step change in service delivery of full electronic data submissions from all employers over the next four-year period. This will be delivered by a number of key work streams alongside the system supplier.

### Online access to Fund IT systems

The Fund can provide secure online access for suitably large employers, in order for employing authority staff to produce retirement estimates and enquire on their employee's record of membership. The system is available during normal office hours with the exception of any necessary scheduled maintenance of the system.

As there are system and resource costs associated with granting online access, the Fund reserves the right to only agree where there is a mutual benefit in managing data quality and overall administration costs.

The Fund reserves the right to revoke access based on licence cost and employer performance.

### 'MyPension' Member Self Service

All active, deferred and pensioner members of the Fund are able to view their membership records online via a self-service website called 'MyPension' <http://mpfund.uk/mypension>

Annual Benefit Statements and Pensioner Payslips are viewable online and the Fund has made significant savings in paper and postage costs. As part of the ICT development programme, the Fund will be working with its supplier to extend the self-service system to cover more administrative tasks, improving service efficiency and reducing administration costs.

Employers are asked to support the Fund in encouraging member registration with the 'MyPension' self-service system, by providing information on intranets and within appropriate communications to the workforce.

# Performance Standards

A key purpose of the Administration Strategy is to set performance standards and publish both the targets and achievements against those targets to evaluate continuous improvement of the administration function. The performance measures which will be monitored are outlined below, with the outcomes subject to scrutiny by the Pensions Regulator, the Local Pension Board and Pensions Committee; with summary information published in the Fund's Annual Report & Accounts.

# Performance Standards - Scheme Employer

## Duties and Responsibilities

| Function/Task  | Performance Target  |
|--|---|
| <b>Governance</b>  |   |
| Designate a named individual to act as a Pensions Liaison Officer who is the main contact with regard to any aspect of administering the LGPS via submission of Fund documents "Your LGPS Contacts" and Authorised Signatories                         | Within 30 days of becoming a scheme employer or within one month of the change in officer role              |
| Confirm designated contact information for officers authorised to perform key policy decisions and administrative roles within the organisation  | Within 30 days of becoming a scheme employer or within one month of the change in officer role              |
| Appoint person for stage 1 of the pension dispute process (IDRP) and provide full up to date contact details to the Fund   | Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator        |
| Notify the Fund of the receipt of a complaint under the IDRP process   | Within 7 working days of receiving the complaint  |
| Notify the Fund that the stage 1 decision has been issued  | Within 7 working days of making the determination   |
| Appoint an independent registered medical practitioner qualified in occupational health medicine or arrange contract with third party, in order to consider all ill health retirements applications and agree appointment with Administering Authority | Within 30 days of commencing participation in the scheme or date of resignation of existing medical officer |
| Formulate, publish and keep under review policies in relation to all areas where the employer may exercise discretion within the LGPS  | A copy of the policy document is to be submitted to the Fund within one month of a change in policy         |
| Distribute any information provided by the Fund to scheme members/potential scheme members (e,g financial information or generic news alerts)  | In a timely manner as required  |

| Function/Task   | Performance Target   |
|---|--|
| <b>Financial Administration</b>   |  |
| Ensure correct employee contribution rate is to be determined each scheme year in line with the appropriate contribution banding table  | Immediately upon commencing scheme membership, reviewed as per policy on adjusting employee contribution rates   |
| Remit employer and employee contributions and Remittance Advice Slip (LGP41) to the Fund  | By 22nd of the month following deduction of payroll if made electronically or 19th if paid by cheque<br><br>Under the Pensions Act 2004 and the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014, the Pensions Regulator may be notified if the above measurement is not met |
| Implement changes to employer contribution rates as instructed by the Fund at the date specified by the Fund Actuary  | In line with the Rates Adjustment Certificate as per the valuation   |
| Ensure and arrange for the correct deduction of employee contributions from a member's pensionable pay including any period of child related leave, trade dispute or other forms of leave of absence from duty                          | As required by payroll cycle, monthly or weekly  |
| Manage the deduction of all additional contributions or amend such deductions, as appropriate   | As required  |
| Arrange for the deduction of AVCs and payment over of contributions to the AVC provider( s) and inform the Fund as required   | As required by payroll cycle, typically monthly  |
| Refund any employee contributions when employees opt out of the pension scheme within 3 months and submit LGP9A   | Within 42 days of the opt-out date   |
| Remit additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent and a funding strain cost arises | Within 30 days of receipt of invoice from the Fund   |



| Function/Task   | Performance Target                                     |
|---|--|
| <b>Financial Administration continued...</b>  |  |
| Remit Recharge payments in respect of pension members – e.g Compensatory Added Years  | To be paid within 30 days of the invoice from the Fund |
| Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund Actuary and Accounts Team   | To be paid within 30 days of the invoice from the Fund |
| Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund's Administration Team | To be paid within 30 days of the invoice from the Fund |

| Function/Task  | Performance Target                                      |
|--|---|
| <b>Alternative Service Delivery Models / TUPE Transfer - New Employers</b>   |   |
| Notify the Fund of contracting out services which will involve a TUPE transfer of staff to another organisation so that information can be provided to assist in the decision                                | At the point of deciding to tender                      |
| Notify Fund of lead decision making and operational officers in circumstances where a prospective new employer or admitted body may request to join the Fund as a result of re-organisation or TUPE transfer | At commencement of business review project              |
| Work with Fund Officers to arrange for an admission agreement to be established  | A minimum of 90 days in advance of the date of contract |
| Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund  | As soon as decision is agreed                           |

| Function/Task  | Performance Target  |
|--|---|
| <b>Member Information/Data Quality and general administration</b>  |   |
| Provide the Financial Statement (LGP40) as specified by the Fund including granular breakdown per employee of contribution, CARE/FTE pay and service related data (annual year-end return) to feed into valuation/GAD cost sharing exercise and annual benefit/annual allowance statements for members | Completed and validated return to be submitted no later than the end of business on the second Friday within the month of May   |
| To ensure optimum accuracy of year-end information, in line with specified extract   | Less than 5% of entries to be queried following digital alignment of members and memberships  |
| To resolve digital alignment and financial discrepancies ( sanity queries) resulting from the annual return process  | <p>To fully answer all queries from the Fund within 15 working days of receipt of the query</p> <p>In circumstances where an employer submits a late annual return and the Fund can only query within the month of July, the timescales may be shorter than 15 days, as advised by the Fund</p> |
| To action requests for data reconciliations of member records  | To fully answer data reconciliations/member queries from the Fund within three weeks of receipt of data   |
| Notify the Fund of new joiners/additional employment electronically in agreed format and secure data transfer or manual LGP1 form  | Within 42 days of member's contractual auto-enrolment or re-enrolment date  |
| Provide new joiner with Membership Form LGP2 -To assist Fund to establish previous pension entitlements  | Within 30 days of the member's first day of entry to the scheme   |
| Direct all eligible new employees to the member guide to the pension scheme on the Fund website  | At date of employee appointment   |
| Change in employees' circumstances which may impact on pension benefits, (movement in and out 50/50 scheme, marital or civil partnership status, maternity, paternity, absence, name etc) electronically in agreed format and secure data transfer or manual LGP4 Form                                 | Within 42 days of the event or receipt of information   |

| Function/Task   | Performance Target  |
|---|---|
| <b>Member Information/Data Quality and general administration continued...</b>  |   |
| Notify the Fund of early leaver/opt over three months for member's entitled to a refund or deferred benefit and submit both LGP9 / Termination Form LGP1A in electronic or manual format  | Within 42 days of date of leaving/opt out date  |
| On leaving employment, an LGP1C is required for the opted out former member   | No later than 30 days of termination of employment  |
| Notify the Fund when a member leaves with immediate entitlement to benefits submit Termination Form LGP1A and issue Retirement Option Form LGP1B in electronic or manual format to the employee   | No later than 30 days of retirement   |
| Notify the Fund of the death of an employee and provide next of kin details and submit Termination Form LGP1A. In addition, raise awareness of Fund's Welfare Officer when a member is suffering from a terminal illness                                  | Within 3 working days of knowledge of the death of the employee   |
| To determine based on medical opinion and advice whether an ill health award is to be made and determine where relevant which tier 1,2 or 3<br><br>Arrange for the completion of the appropriate LGP12 form and submit along with LGP1A/LGP1B to the Fund | No later than 30 days of date of retirement   |
| To submit request form LGP88 for estimate of benefits   | No later than four months, before retirement but the Service Area Manger can modify the target in exceptional circumstances |
| To Notify the Fund of final salary and pensionable pay figures for divorce valuations   | Within 10 working days of request   |
| To Notify the Fund of a workforce planning exercise and the intent to request a bulk estimate retirement calculation to seek both member pension details and employer strain costs  | As soon as practicable to allow the Fund to consider resource planning  |

# Performance Standards - Administering Authority

## Duties and Responsibilities

| Function/Task   | Performance Target   |
|---|--|
| <b>Governance</b>   |  |
| Regularly review the Fund's pension administration strategy and consult with all scheme employers   | To review at least triennially and revise following any material change in policies that relate to the PAS |
| Review the Fund's Funding Strategy Statement at each triennial valuation, following consultation with scheme employers and the Fund's actuary | Publish by 31 March following the valuation date or as required  |
| Review the Fund's Communication policy statement  | Annual review and publish within 30 days of any revision to the policy being agreed by Pension Committee   |
| Review the Fund's Governance and compliance statement   | Annual review and publish within 30 days of any revision being agreed by Pension Committee                 |
| Formulate and publish policies in relation to all areas where the administering authority may exercise a discretion within the scheme         | Annual review and publish within 30 days of any revision being agreed by Pension Committee                 |
| Publish the Fund's Annual report and Financial Statement  | By 30 September following the year-end or following the issue of the auditors opinion                      |
| Notify scheme employer of issues relating to scheme employer's unsatisfactory performance   | Within 10 working days of discernible performance issue  |

| Function/Task   | Performance Target   |
|---|--|
| <b>Financial Administration</b>   |  |
| Consult with employers on the outcomes of the triennial valuation   | At least 90 days in advance of the signing of the final Rates and Adjustment Certificate |
| Notify employers of contribution requirements for 3 years effective from April following the actuarial valuation date           | At least 30 days before signing off the Rates and Adjustment Certificate                 |
| Notify new scheme employers of their contribution requirements  | Within 60 days of receipt of the data profile for onward submission to the Fund Actuary  |
| Carry out termination valuations on admitted bodies or scheme employers ceasing participation in the Fund                       | Within 60 days of receipt of termination forms from exiting employer                     |
| Notify scheme employer of decision to recover additional costs associated with the scheme employer's unsatisfactory performance | Within 10 working days of scheme employer failure to improve performance as agreed       |

| Function/Task   | Performance Target   |
|---|--|
| <b>Alternative Service Delivery Models / TUPE Transfer - New Employers</b>  |  |
| Arrange for the setting up of separate admission agreement/new scheme employers including the allocation of assets and notification to the Secretary of State   | Within 90 days of all necessary information  |
| Arrange for all new prospective admitted bodies/new scheme employers to undertake, to the satisfaction of the Fund, a risk assessment of the level of bond or guarantee required in order to protect other scheme employers participating in the Fund | To be completed prior to the body being admitted timings predicated on timely submission of staff profile for submission to the Fund Actuary |
| Undertake a review of the level of bond/guarantee to protect other constituent employers  | Annual review or upon material change in an employer's structure   |

| Function/Task   | Performance Target   |
|---|--|
| <b>Member Information/Data Quality and general administration</b>   |  |
| Provide support for employers through a dedicated employer website, technical notes, forums, employer bulletins/alerts and day to day contact | Forums and ongoing support as required   |
| Organise and provide coaching sessions on an employer's roles and responsibilities  | Upon request of scheme employers or as Fund Officers deem necessary  |
| Notify scheme employers and scheme members of changes to the scheme rules   | Within 60 days of regulatory change  |
| Produce annual benefit statements to active and deferred members as at 31 March each year   | By 31 August following the year-end  |
| Produce and issue pension saving statements each year to members who have exceeded their annual allowance                                     | By 6 October following the end of tax year (subject to receipt of all relevant information from the scheme employer) |
| Publish and keep up to date all forms required for completion by scheme members or employer   | 30 days from any revision  |
| Issue and keep up to date web based employer guides   | Within 30 days from date of change/amendment   |
| Issue and keep up to date scheme guide and all other literature for issue to scheme members   | Within 30 days from date of change/amendment   |
| Set up new joiner and provide statutory notification to member  | Within 30 days of receipt of correct notification from a scheme employer   |
| Process changes in employees' circumstances which may impact on pension benefits  | Within 30 days of receipt of correct notification from a scheme employer   |
| Process transfer in quotations  | Within 10 working days of receipt of all required information  |
| Transfer notification of credited membership/accrued pension account to be notified to the scheme member                                      | Within 10 working days of receipt of payment   |

| Function/Task   | Performance Target   |
|---|--|
| <b>Member Information/Data Quality and general administration continued...</b>  |  |
| Transfer out quotations processed   | Within 10 working days of receipt of all necessary information   |
| Transfer out payments processed   | Within 7 working days of receipt of all necessary information*   |
| Determine necessary category in relation Aggregation/Interfund cases and issue notification to member of service credit and accrued pension account                     | Within 10 working days of receipt of all necessary information   |
| Process Divorce Valuation   | Within 10 working days of receipt of all necessary information   |
| Notify the scheme employer of any scheme member's election to pay additional pension contributions ,including all required information to enable deductions to commence | Within 10 working days of receipt of election from a scheme member   |
| Process scheme member requests to pay/amend/cease additional voluntary contributions  | Within 7 working days of receipt of request from scheme member   |
| Deferred benefits calculated  | Within 20 working days of receipt of all necessary information   |
| Deferred benefits processed for payment   | Within 7 working days of receipt of election and all necessary information*  |
| Refund payments   | Within 10 working days of receipt of all necessary information*  |
| Provision of estimate of Pension Benefits   | Within 10 working days of receipt of all necessary information*  |
| Provision of retirement options to members  | Within 10 working days of receipt of all necessary information   |
| New retirement benefits processed for payment following receipt of options  | Lump sum payment plus first payment of pension within 7 working days of receipt of all necessary documentation*<br><br>Thereafter pension payment on monthly payroll run |

| Function/Task  | Performance Target   |
|--|--|
| <b>Member Information/Data Quality and general administration continued...</b>   |  |
| Acknowledgement of a death   | Within 5 days of receiving the notification  |
| Payment of death lump sum  | Within 7 working days of receipt of all necessary information*   |
| Notification of benefits payable to dependents   | Within 7 working days of receiving the required information*   |
| Provide an answer or acknowledgement to scheme members/scheme employers/personal representatives/dependents and other authorised persons | Within 10 days from receipt of enquiry   |
| Undertake data reconciliation exercises against Fund and employer payroll system   | Periodically throughout year   |
| To produce year end year digital alignment queries and financial discrepancies for employers   | Within 30 days of receipt of complete and correct return with less than 5% of entries to be queried after digital alignment of members and memberships |
| Provision of bulk estimate data including both member pension details and employer strain costs  | Within the timescales agreed between the Fund and employer to inform the workforce planning exercise   |

**\*All performance targets relating to payments exclude BACS processing period**



# Monitoring Performance

It is the responsibility of the Fund and scheme employers to ensure compliance with the LGPS regulations and this associated Pensions Administration Strategy; with all parties required to undertake functions and tasks to the agreed quality standards.

The Fund will measure and report the Funds and scheme employer's compliance with the agreed service standards on a regular basis.

The Fund monitors its own performance against internal key performance indicators on a monthly basis; performance against the PAS by both the Fund and employers is reported to the Pension Board three times a year. The Fund will also report back to employers about their individual performance identifying any areas for improvement including outstanding data items.

## Audit

The Fund is subject to an annual audit of its processes and internal controls and the administering authority's auditors may request member data or may ask to attend at employer offices to carry out audits regarding the calculation of final salary pays, career average pays and assumed pays. Employers are requested to co-operate with these activities.

## Escalation policy on charging employers for unsatisfactory performance

The Fund's preferred route to resolution in regard of data gaps is to support and work closely with employers via the Pension Liaison Officer; who will receive opportunity to correct the issue before invoking the Escalation Policy.

However, where persistent failure (which is defined as an ongoing failure to positively engage with the Fund) occurs in relation to administration requirements and no improvement is demonstrated by an employer or willingness to resolve the matter the following actions will be taken:

- Write to the scheme employer, setting out area(s) of non – compliance with performance standards offering support and where appropriate request attendance at a training session
- When no improvement has been demonstrated or where there has been a failure to take agreed action by the scheme employer they will be requested to attend a meeting with representatives of the Fund to agree an action plan.

If no improvement is evident within one month or the employer is unwilling to attend a meeting to resolve the issue a formal notice will be issued setting out;

- the area(s) of non-compliance with performance standards that have been identified
- the steps taken to resolve those area(s) and;
- issue notice that the additional costs will now be reclaimed providing the basis on how the additional cost was calculated.

An invoice will then be issued to the employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance in accordance with the charging schedule outlined overleaf.

A report will be presented to the Local Pension Board detailing charges levied against scheme employers and outstanding payments.

If unsatisfactory performance impacts the Fund's ability to perform statutory functions and measures are not being taken by the employer to address this the Fund will consider reporting the employer to the Pension Regulator.

## Schedule of fees for additional administration tasks

| Activity   |                   |   |
|--|-------------------|---|
| Implementation of Pension Sharing Order  | Member            | £500 + VAT                                    |
| An additional CETV request made within 12 months of an earlier CETV being provided including circumstances for divorce valuations  | Member            | £150 + VAT                                    |
| A replacement guaranteed CETV where the transfer option forms are not returned within three months of the guarantee date   | Member            | £150 + VAT                                    |
| <p>An employer request for multiple benefit estimates for a member within a 12month period e.g. for a variety of reasons for leaving or potential retirement dates</p> <p>This excludes estimates provided via a bulk exercise</p> <p><b>The Fund will provide an estimate for a single date and reason for leaving free of charge</b></p> | Employer          | £100 + VAT for each individual item requested |
| Request for copies of correspondence, documents or duplicate statement   | Member / Employer | £10 + VAT                                     |
| Correspondence provided to third parties in relation to member pension entitlements and benefit structure  | Member / Employer | £100 + VAT *                                  |
| Individual Protection 2016 (IP2016) Valuation to calculate an Individual's protected LTA   | Member            | £150 + VAT                                    |
| Production of non-statutory Pension Saving Statements and forecasts of annual allowance usage  | Member            | £150 + VAT *                                  |
| <p>Administration of information in relation to Accounting Standards Exercises **</p> <p>(Recharge of actuary fee in accordance with contractual arrangement)</p>  | Employer          | £100 + VAT *                                  |

| <b>Activity continued</b>   |                 |   |
|---|-----------------|---|
| Bespoke Pension Administration Work   | <b>Employer</b> | <b>At the appropriate hourly officer rate on a cost recovery basis</b>          |
| Data quality and en-masse calculation/operational processing in connection with on-boarding of new employers including academies<br><br>(Recharge of actuary fee in accordance with contractual arrangement)  | <b>Employer</b> | <b>£2,000 + VAT *</b>   |
| Data quality and en-masse calculation/operational processing in connection with employer de-participation<br><br>(Recharge of actuary fee in accordance with contractual arrangement)   | <b>Employer</b> | <b>£2,000 + VAT *</b>   |
| Provision of an indicative funding/termination valuation based on membership and cashflow data assessed to determine the previous triennial results   | <b>Employer</b> | <b>£500 + VAT per Valuation</b>   |
| Setup de-risking framework to monitor an employer funding position to lock down pension liabilities and switch to an alternative investment strategy to reduce volatility of pension costs<br><br>Annual monitoring of the funding level and engagement with employer on proposed funding trigger | <b>Employer</b> | <b>Actuarial recharge of £3,500 + VAT</b><br><br><b>£3,000 + VAT, per annum</b> |

\*These are standard fees which may be subject to adjustment based on resource required

\*\*MPF would be willing to bring forward the schedule deadline for issue of accounting disclosure; however it may result in more estimates being needed, in particular the calculation of the investment return, and share of the plan assets achieved over the year. The actuary will need to estimate these using market indices for a longer period than is currently the case. Employers will need to agree that the 'estimation' is acceptable with their auditor and alert the Fund of an earlier response deadline.

# Schedule of charges for Employers

| Activity   |   |
|--|---|
| Failure to remit payment of monthly employee and employer contributions in full by the 22nd of the following month   | Interest at base rate plus 1% as per the 2013 regulations   |
| <p>Failure to submit monthly contributions LGP41 forms with or before remittance of payment, except where payment is made early and LGP41 is received on/before the payment method submission date.</p> <p>Note: In order to streamline accountancy procedures the recommended best practice is to submit the LGP41 prior to or with payment of contributions.</p>               | £100 per occasion   |
| <p>Failure to comply with one or both of the following requirements:</p> <ul style="list-style-type: none"> <li>• Submission of completed and validated year-end return in accordance with the prescribed specification by the end of business on the second Friday within the month of May</li> <li>• Submission of the certified year end LGP40 Financial Statement</li> </ul> | <p>A fixed penalty of £250</p> <p>plus a further fixed penalty of £100 for every further week late following that deadline</p>  |
| Quality of the year-end information provided is below the acceptable tolerance level set at 5% of entries to be queried after digital alignment of members and memberships   | <p>The Fund will recover costs for the work involved to resolve these errors</p> <p>Typically costs will be based on officer hourly rates but will be determined on the resource required to address errors above the tolerance</p> |

## Please Note:

If an employer annual return is received by the end of business on the second Friday within the month of May and the return is accepted, no charge will apply

If a completed and validated annual return is received by the end of business on the second Friday within the month of May and the return is rejected following initial conformity checks, but subsequently re-submitted and accepted within 2 weeks of being notified of the rejection, no charge will apply.

In regard the 5% error rate in resolving annual return data, charges will not be applied during the 2018/19 scheme year (1 April 2018 - 31 March 2019). This will provide opportunity for both the Fund and employers to reconcile data and clarify specific requirements for future provision of data.

**These charges are reviewed annually by the Fund and in exceptional circumstances can be waived at the discretion of the Service Area Manager.**

## **Payment method**

Payments in respect of administration activity directly requested by the member or third party representatives must be agreed with a Fund officer and paid in advance via online banking before the requested information can be provided.

The bank account details for electronic payment are as follows:

**Account Name** Merseyside Pension Fund

**Bank sort code** 30-95-11

**Bank account number** 01140818

The payment reference is to include the members name and National Insurance number. Charges in respect of administration work commissioned by an employer must also be agreed and paid in advance electronically before provision of the information or depending on the organisations' financial arrangement upon receipt of a purchase order.

Payments must include a reference as provided by the Fund for the purposes of reconciliation by the accounts team with our bank account. In circumstances where financial penalties are incurred the Fund will issue an invoice for payment.

## **Feedback from employers**

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should complete the online form available on the secure employers' website:

<http://mpfemployers.org.uk>

# **Employer Guides for Administration**

The Fund provides comprehensive guides in regards employer administration under the LGPS regulations from 1 April 2014.

## **HR Guide for Employers**

This guide sets out the requirements for HR sections in respect of the Local Government Pension Scheme regulations, effective from 1st April 2014.

## **Payroll Guide for Employers**

This guide sets out the requirements for payrolls in respect of the Local Government Pension Scheme regulations, effective from 1st April 2014. It is intended to inform payroll providers and employers of the minimum information needed to effectively manage the 2014 Scheme (and its interaction with the 2008 Scheme) and contains illustrative examples.

These employer guides are available on the dedicated employer website.

<http://mpfemployers.org.uk/content/hr-payroll-guides>

## **Automatic Enrolment Guide for LGPS Employers**

The Local Government Pension Committee (LGPC) produced two guides which explain how employers' responsibilities under the Local Government Pension Scheme regulations interact with those automatic enrolment responsibilities under the provisions of the Pensions Act 2008.

These are available on the dedicated employer website.

<http://mpfemployers.org.uk/content/automatic-enrolment-guide-lgps-employers>

# Associated Policy Statements & Discretions

## Records & Data Improvement Policy

The Fund collects and holds large amounts of digital and paper based data and is heavily reliant on the timely receipt of quality data from employers, in order to effectively administer the Local Government Pension Scheme (LGPS). This document is supplemental to the Pension Administration Strategy.

The Fund website has the latest copy of this policy which can be found at:

<http://mpfemployers.org.uk/content/records-data-improvement-policy>

## Communications Policy

This statement outlines the Fund's policy on:

- Information to members, representatives and employers;
- The format, frequency and method of distributing such information;
- The promotion of the Scheme to prospective members and their employing authorities.

The Fund website has the latest copy of this policy which can be found at:

<http://mpfmembers.org.uk/content/riskdocs>

## Governance Policy

Wirral Metropolitan Borough Council is the Administering Authority for Merseyside Pension Fund. The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the scheme of delegation and the terms of reference, structure and operational procedures of the delegation and can be found on the Fund website at:

<http://mpfmembers.org.uk/content/riskdocs>



## Employer Discretions

Since 1997, the LGPS Regulations have required every employing authority to:

- issue a written policy statement on how it will exercise the various discretions provided by the Scheme;
- keep it under review;
- revise it as necessary.

A list of employer discretions can be found on the Employers website at:

<http://mpfemployers.org.uk/content/employer-discretions-april-2014>

**Approved by:** Pensions Committee

**13 November 2017**

Merseyside Pension Fund  
Castle Chambers, 43 Castle Street  
Liverpool, L2 9SH

**Telephone:** 0151 242 1390

**Fax:** 0151 236 3520

**Web:** <http://mpfemployers.org.uk>

**Email:** mpfadmin@wirral.gov.uk

# Appendix A

Scheme employers with active members as at 31 March 2021

## Scheduled Bodies (34)

## Contributions Received

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

**Scheduled Bodies (Academies) (105)****Contributions Received**

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

## Contributions Received

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

## Contributions Received

|   | Employers<br>£'000 | Deficit/(Surplus)<br>£'000 | Employees<br>£'000 |
|---|--------------------|----------------------------|--------------------|
| St Mary's Catholic College                | 210                | 129                        | 74                 |
| St Michael's C of E High School (Academy) | 152                | 91                         | 52                 |
| St Silas C of E Primary School (Academy)  | 66                 | 27                         | 29                 |
| St Thomas C of E Primary (Academy)        | 36                 | 18                         | 10                 |
| Stanley High School (Academy)             | 115                | 64                         | 35                 |
| Stanton Road Primary School (Academy)     | 69                 | 25                         | 20                 |
| Sylvester Primary Academy                 | 52                 | 15                         | 15                 |
| The Academy of St Nicholas                | 160                | 145                        | 57                 |
| The Beacon C E Primary School (Academy)   | 53                 | 29                         | 19                 |
| The Belvedere Academy                     | 127                | 10                         | 52                 |
| The Birkenhead Park School                | 120                | 125                        | 40                 |
| The Prescott School (Academy)             | 132                | 83                         | 41                 |
| The Studio (Academy)                      | 24                 | -1                         | 9                  |
| The Sutton Academy                        | 179                | 90                         | 73                 |
| Town Lane Infant School (Academy)         | 66                 | 26                         | 20                 |
| Townfield Primary                         | 134                | 44                         | 46                 |
| Uni of Liverpool Maths School             | 8                  |                            | 3                  |
| Upton Hall School                         | 123                | 30                         | 41                 |
| Weatherhead High School                   | 216                | 66                         | 82                 |
| West Derby School (Academy)               | 179                | 94                         | 58                 |
| West Kirby Grammar School                 | 107                | 40                         | 34                 |
| Whiston Willis Primary (Academy)          | 67                 | 33                         | 18                 |
| Willow Tree Primary                       | 31                 | 11                         | 10                 |
| Wirral Grammar Boys (Academy)             | 102                | 37                         | 36                 |
| Wirral Grammar School for Girls           | 113                | 32                         | 32                 |
| Woodchurch High School                    | 386                | 126                        | 130                |
| Yew Tree Primary Academy                  | 62                 | 35                         | 20                 |

**Admission Bodies (Community) (24)****Contributions Received**

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

**Admission Bodies (Transfer) (49)****Contributions Received**

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



## Contributions Received

|                               | Employers<br>£'000 | Deficit/(Surplus)<br>£'000 | Employees<br>£'000 |
|-------------------------------|--------------------|----------------------------|--------------------|
| Taylor Shaw - Great Meols     | 5                  |                            | 1                  |
| Taylor Shaw - Hugh Baird      | 2                  | -2                         | 1                  |
| Taylor Shaw - Raeburn         | 4                  | 1                          | 1                  |
| Taylor Shaw - Range           | 10                 |                            | 2                  |
| Taylor Shaw - St Andrews      | 1                  | -2                         |                    |
| Veolia ES Merseyside & Halton | 91                 |                            | 27                 |
| Volair Ltd                    | 320                | -91                        | 111                |
| WCFT (NHS)                    | 924                |                            | 317                |
| WIRED Ltd                     | 22                 | 61                         | 6                  |

**Scheme Employers where contributions have been received during 2020/21 but they had no Active Scheme Members as at 31 March 2021**

|   |    |       |   |
|---|----|-------|---|
| Arvato                                  | 1  |       |   |
| Berrybridge Housing Ltd                 | 8  | 2,000 | 3 |
| Castlerock Recruitment Group Ltd (CRG)  | 5  |       | 2 |
| Compass Contract Services (UK) Ltd      | 11 | 8     | 2 |
| Emslie Morgan                           |    | 1,025 |   |
| Lee Valley Housing Association Ltd      | 3  | 886   | 1 |
| Mellors Catering - St Paul & St Timothy | 3  | 2     | 1 |
| Mersey Waste                            |    | 274   |   |
| Studio @ Deyes Academy                  | 3  | 3     | 1 |

|               |                |               |               |
|---------------|----------------|---------------|---------------|
| <b>Totals</b> | <b>257,619</b> | <b>14,500</b> | <b>60,633</b> |
|---------------|----------------|---------------|---------------|

# Appendix B

## Pensions Committee Items

### 2 November 2020

Audit Plan and Addendum  
 Audit Findings Report  
 MPF Annual Report & Accounts 2019/20  
 Statement of Accounts / Letter of Representation  
 Pension Board Review 2019/20 and Work Plan 2020/21  
 Investment Strategy Proposals  
 LGPS Update  
 Proposed McCloud Judgment Remedy and LGPS consultation  
 Retail Prices Index Reform  
 Investment Performance  
 Local Pension Board Minutes  
 National Knowledge Assessment  
 Northern LGPS Update  
 Working Party Minutes

### 2 February 2021

LGPS Update  
 FSS Policy Updates  
 Authorised Signatories  
 Treasury Management Policy  
 Members' Learning & Development 2021  
 Local Pension Board Minutes  
 Northern LGPS Update  
 Working Party Minutes

### 29 March 2021

LGPS Update  
 MPF Budget 2021/22  
 Overpayment of Pensions Policy  
 Non-Recovery of Pension Overpayments  
 Property Portfolio Rent Arrears and Write-offs  
 Working Party Minutes

## Attendance Record 2020 - 2021

|  | PENSIONS COMMITTEE |       |       |        | GRWP   |        | IMWP  |        |        |        |
|--|--------------------|-------|-------|--------|--------|--------|-------|--------|--------|--------|
|  | 16 JUL             | 4 NOV | 3 FEB | 30 MAR | 14 NOV | 25 FEB | 6 JUN | 18 SEP | 14 NOV | 25 FEB |
| Cllr Pat Cleary (Chair)                          | •                  | •     | •     | *      | •      | •      | •     | •      | •      | •      |
| Cllr Geoffrey Watt (Spokesperson)                | •                  | •     | •     | *      | •      | •      | •     | •      | •      | •      |
| Cllr George Davies (Spokesperson)                | •                  | •     | •     | *      |        | •      | •     | •      | •      | •      |
| Cllr Chris Carubia                               |                    |       | •     | *      |        | •      | •     |        |        | •      |
| Cllr Andrew Gardner                              | •                  | •     |       | *      |        |        | •     |        | •      |        |
| Cllr Kathy Hodson                                |                    |       |       | *      |        |        |       |        |        |        |
| Cllr Tony Jones                                  | •                  | #     | •     | *      | •      | •      | •     |        | •      | •      |
| Cllr Brian Kenny                                 | •                  | •     | •     | *      |        |        |       | •      |        |        |
| Cllr Cherry Povall, JP                           | #                  | •     | •     | *      |        | •      | •     | •      |        | •      |
| Cllr Stuart Wittingham                           |                    |       | •     | *      |        |        | •     | •      |        |        |
| Cllr Ian Byrne (Liverpool City Council Co-Optee) |                    |       |       | *      |        |        | •     | •      |        |        |
| Cllr John Fulham (St. Helens MBC Co-Optee)       | •                  |       |       | *      |        | •      |       |        |        | •      |
| Cllr Jayne Aston (Knowsley MBC Co-Optee)         | •                  |       |       | *      |        |        |       |        |        |        |
| Cllr Paulette Lappin (Sefton MBC Co-Optee)       | •                  | •     | •     | *      |        |        | •     |        |        |        |
| Roger Bannister (UNISON Co-Optee)                | •                  | •     | •     | *      |        | •      | •     | •      | •      | •      |

# Deputy Attended  
\* Meeting Cancelled

## Conferences

|  | LGC<br>Celtic Manor | PLSA        | MPF Annual<br>Conference | LAPFF<br>Annual<br>Conference | LGPS<br>Governance<br>Conference | LGC<br>Investment<br>Seminar | PLSA<br>Gloucestershire | Fundamentals<br>Training |
|--|---------------------|-------------|--------------------------|-------------------------------|----------------------------------|------------------------------|-------------------------|--------------------------|
|  | 5 - 6 SEP           | 16 - 18 OCT | 29 NOV                   | 4 - 6 DEC                     | 23 - 24 JAN                      | 27 - 28 FEB                  | 18 - 20 MAY             | 17 OCT - 6 NOV           |
| Cllr Pat Cleary (Chair)                    | •                   |             |                          |                               |                                  |                              |                         | •                        |
| Cllr Geoffrey Watt (Spokesperson)          | •                   |             |                          |                               |                                  | •                            |                         |                          |
| Cllr Chris Carubia                         | •                   | •           |                          |                               | •                                | •                            |                         |                          |
| Cllr Andrew Gardner                        |                     |             |                          |                               |                                  | •                            |                         |                          |
| Cllr Tony Jones                            |                     |             |                          |                               |                                  |                              |                         |                          |
| Cllr Brian Kenny                           |                     | •           |                          |                               |                                  | •                            | •                       |                          |
| Cllr Cherry Povall, JP                     | •                   | •           |                          |                               |                                  | •                            |                         |                          |
| Cllr Paulette Lappin (Sefton MBC Co-Optee) |                     |             |                          |                               |                                  |                              |                         |                          |
| Roger Bannister (UNISON Co-Optee)          |                     | •           |                          | •                             |                                  |                              | •                       |                          |

# Appendix C

## Information Contacts

| Position   | Name                            | Telephone number |
|--|---------------------------------|------------------|
| Director of Pensions   | Peter Wallach                   | 0151 242 1390    |
| Head of Pensions Administration  | Yvonne Murphy                   | 0151 242 1390    |
| Area   | Name                            | Telephone number |
| Accounts<br>(Compliance, Financial Control and Management)                                     | Donna Smith                     | 0151 242 1390    |
| Investments<br>(Fund Assets' Management)   | Adil Manzoor                    | 0151 242 1390    |
| Employer Compliance and Membership<br>(Transfers, Divorce, Admissions, Data quality assurance) | Sue Roberts/Paula Heaton        | 0151 242 1390    |
| Benefits/Payroll<br>(Retirement Calculations and Payments)                                     | Barbara King/Keith Higgins      | 0151 242 1390    |
| Operations (IT/Communications)<br>(Systems Support, MyPension, Website, Events)                | Guy Hayton                      | 0151 242 1390    |
| Resolution of Disputes   |                                 |                  |
| Employer Decisions   | Head of Pensions Administration | 0151 242 1390    |
| Fund Decisions   | Section 151 Officer             | 0151 666 3407    |
| Scheme Employers' Contacts   |                                 |                  |
| Arriva North West  | Alison Ashcroft                 | 07855 104975     |
| Knowsley MBC   | Jaci Dick                       | 0151 443 5161    |
| Liverpool City Council   | Richard Arnold                  | 0151 233 0375    |
| Liverpool John Moores University   | Danielle Williamson             | 0151 231 8756    |
| Merseyside Fire & Rescue Service   | Mike Rea                        | 0151 296 4245    |
| Merseytravel (MPTE)  | Sue Highton                     | 0151 330 1199    |
| Merseyside Waste Disposal Authority  | Jane Nolan                      | 0151 255 2537    |
| Office of the Police and Crime Commissioner for Merseyside (OPCCM)                             | Vicky Osayande                  | 0151 777 7053    |
| Sefton MBC   | Lynn Abbott                     | 0151 934 4126    |
| St. Helens MBC   | Sarah Myers                     | 0174 467 6627    |
| Wirral Council   | Matthew Slater                  | 0151 691 8529    |



## **Report & Accounts 2020/21**

### **Merseyside Pension Fund**

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43 Castle Street  
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Tel: 0151 242 1390

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council

