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PENSIONS COMMITTEE

Monday, 25 March 2019

Present:

Councillor P Doughty (Chair)

Councillors G Davies K Hodson
P Cleary T Jones
A Gardner B Kenny
P Hackett C Povall
A Jones (dep for Cllr I Williams)

Councillor Ian Byrne, Liverpool City Council

Roger Bannister, Unison retired member representative

Apologies

Councillors J Fulham, St Helens Council
I Williams, Wirral Council

S Brunskill, Union Scheme Member representative

1 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

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

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

Councillor Andrew Gardner declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

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

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

2 MINUTES

Resolved – That the accuracy of the Minutes of the Pensions Committee held 21 January, 2019 be agreed.

3 AUDIT PLAN

Representatives from Grant Thornton UK, attended the meeting and presented the External Audit Plan for Merseyside Local Government Pension Scheme Year ended 31 March 2019.

Resolved – That;

1. Grant Thornton be thanked for the presentation on the Audit Plan.

2. the Audit Plan be noted.

4 LGPS UPDATE

Members gave consideration to a report of the Director of Pensions that provided an update on developments relating to the cost management process for public service pension schemes - including the implications on the cost of the LGPS following the recent Court of Appeal decision in respect of the Judges' and Firefighter pension schemes. Yvonne Caddock, Head of Pension Administration, outlined the report to Members and noted a typographical error in paragraph 2.2 bullet point 6 that should read £12,851 and not £12,501 as stated in the report. Yvonne Caddock also outlined the implications of the McCloud Case referred to in the report.

Resolved – That;

- 1) developments in respect of the cost management process, and;**
- 2) the subsequent delay in implementing changes to the benefit package due to the McCloud case and the impact on the impending 2019 Triennial Valuation be noted.**

5 FAIR DEAL CONSULTATION

A report of the Director of Pensions provided Members with details of the consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG) on 'New Fair Deal'.

Yvonne Caddock, Head of Pensions Administration, outlined the report to the Committee. Members were informed that the consultation related to the introduction of greater pensions protection for employees of LGPS employers who were compulsorily transferred to service providers. The consultation had been issued on 10 January 2019 with a request for consultation responses to be submitted by 4 April 2019.

The full consultation document could be accessed from the following link:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>

A draft response was attached as an appendix to the report and officers sought Members' approval for submission to MHCLG.

The draft response had also been shared with the Independent Chair of the Pension Board for his review and comment.

Resolved – That;

1 the consultation document be noted and;

2 approval be provided for the formal response attached to the report to be submitted by 4 April 2019.

6 PLSA LOCAL AUTHORITY CONFERENCE

A report of the Director of Pensions requested nominations for members to attend the Pensions & Lifetime Savings (PLSA (formerly NAPF)) Local Authority Conference 2019 to be held in Gloucester from 13 May to 15 May 2019.

Peter Wallach, Director of Pensions, informed Members that this was one of the headline conferences in the calendar. The PLSA Local Authority Conference was a specialist pension event for Local Authorities, designed to look at the ever-changing Local Government Pension Scheme.

Cost and complexities - governing the LGPS was the theme of Local Authority Conference 2019 – a topic with many angles, which would be fully discussed over the three days.

The report informed the Committee that the LGPS had much to consider – the move from triennial to quadrennial valuations, the potential breaches of the cost cap ceiling and floor, the forthcoming pensions dashboard, and a real desire to better align the needs of the fund with the framework of the local authorities that underlie them. These concerns were taking place against the backdrop of a complicated political and economic environment involving issues such as Brexit, climate change and the always-dynamic financial markets each critical for the LGPS to understand and each thoroughly explored at the Conference.

The full agenda was attached as an appendix to the report and the Chair of the Committee, whilst acknowledging a clash with Mayor-making in Wirral Council, encouraged Members to attend.

Resolved – That the Director of Pensions circulate details of the PLSA Conference and that Members be encouraged to attend.

7 RISK MANAGEMENT

A report of the Director of Pensions informed Members of the progress made in relation to the design of an equity downside protection strategy for the Fund and

sought approval for the implementation of the structure outlined in the report from Mercer.

To enable implementation, the report also sought approval for an amendment to the Fund's Investment Strategy Statement to allow for the use of derivatives.

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

It was reported that in January 2019, Committee had been informed of the appointment of a framework of investment managers able to implement equity downside protection strategies. Officers had been liaising with the Fund's major employers and with the actuary in order to design an appropriate strategy for the Fund that, by reducing the uncertainty of outcomes, should give the actuary greater certainty in the assumptions used for the 2019 triennial valuation.

In parallel with this, officers had been putting in place the necessary arrangements with the Fund's custodian for collateral management and related operational requirements as well as negotiating legal agreements with the framework managers. Members were informed that in order to conclude the investment management agreements, the Fund needed to amend its Investment Strategy Statement to include a specific reference permitting the use of derivatives in both pooled and segregated mandates. The proposed wording was consistent with the LGPS (Management and Investment of Funds) Regulations 2016 regarding the suitability of particular investments and types of investments.

Members approval was sought for the Fund's Investment Strategy Statement to be revised to read:

"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."

Resolved – That;

1 the report be noted and the implementation of the overlay strategy as outlined in the Mercer report be approved.

2 the revised wording for the Investment Strategy Statement be approved.

8 POOLING UPDATE

Members gave consideration to a report of the Director of Pensions that provided Members with a copy of the draft response from the Northern LGPS to the consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling.

Approval was sought for a draft response by the Fund. An outline of key considerations was attached to the report. The appendix to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

In January 2019, Pensions Committee had been informed that MHCLG had issued draft statutory guidance on LGPS asset pooling. The guidance had set out the requirements on administering authorities, replacing previous guidance, and built on previous Ministerial communications and guidance on investment strategies. It was an informal consultation with interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS. The consultation was to remain open for 12 weeks, closing on 28 March 2019.

Members were informed that, as advised in January's report, the Northern LGPS had since been working with its advisors to draft an initial response to the guidance. The response reiterated that Northern LGPS remains supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance') and set out the Pool's progress in meeting the criteria. Key achievements included:

- GLIL, the Pool's direct infrastructure vehicle, having around £1bn invested in eight UK infrastructure projects
- Procurement of an FCA regulated Pool custodian
- Establishment of the Northern Private Equity Pool last summer with five commitments amounting to £325m already made
- Performance and cost benchmarking against global comparators using CEM Benchmarking

The response also outlined concerns with the guidance as set out in the report and the Chair of the Committee provided a verbal update to the Committee and indicated that a meeting with the Minister for Housing, Communities & Local Government would be taking place, possibly at the beginning of April, when concerns would be set out.

Resolved – That;

1 the report be noted and;

2 the draft response to the consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling by the Fund be approved.

9 EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the

following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

10 RISK MANAGEMENT - EXEMPT REPORT

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

11 POOLING UPDATE - EXEMPT REPORT

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

12 INTERNAL INVESTMENT MANAGEMENT - EXEMPT REPORT

Members gave consideration to a report of the Director of Pensions. The report was exempt by virtue of paragraph 3.

Resolved – That the recommendations in the exempt report be approved.