

PENSIONS COMMITTEE

Monday, 19 January 2015

Present:

Councillor	P Doughty (Chair)	
Councillors	AR McLachlan	H Smith
	G Davies	G Watt
	T Johnson	M Hornby
	AER Jones	C Carubia
	A Sykes (dep for Cllr C Povall)	
	N Crofts, Liverpool City Council	
	N Keats, Knowsley Council	
	P Wiggins, Unison	

Apologies

Councillors	J Fulham, St Helens Council
	C Povall

60 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.

Councillor Paul Doughty declared a pecuniary interest by virtue of his wife 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 Norman Keats declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

Councillor Nick Crofts declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

61 MINUTES

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 17 November, 2014 be approved as a correct record.

62 LGPS UPDATE - PENSION BOARDS

A report of the Strategic Director Transformation and Resources sought the Pensions Committee's comments on the proposed composition and terms of reference of Wirral Council's Pension Board.

It was reported that the final Governance Regulations were still awaited from the Department for Communities and Local Government (DCLG). However, due to the short timescale to implement the board, it was necessary to put arrangements in place to ensure compliance with the regulations.

A first draft of the proposed Terms of Reference for the Pension Board, Member Role, Specification and Appointment Process was attached as appendices to the report and amended recommendations including amendments to section 3 of the Board's Terms of Reference were circulated to the Committee. Members were advised that the Committee's comments on this draft could be incorporated into a revised draft which may be subject to review upon the issue of the final regulations and the Shadow Scheme Advisory Board's guidance.

Members were informed that the final draft would be considered by the Head of Legal and Democratic Services before submission to Council.

The Public Service Pensions Act 2013 required each Local Government Pension Fund to set up a Local Pension Board. DCLG had been consulting on the regulations relating to the governance framework for the reformed scheme and the Pension Committee had been apprised of the recent consultation, which ended on 21 November 2014, at its last meeting.

The final regulations were expected to be laid in January 2015 and the supporting Shadow Scheme Advisory Board Guidance was also expected in January. The final guidance would take account of any changes made to the regulations and the Pension Regulators Code of Practice on the Governance and Administration of Public Service Pension Schemes.

Members were also informed that administering authorities were statutorily required to have approved the composition and terms of reference of the Pension Board by 1 April 2015.

Peter Wallach, Head of the Pension Fund, informed the Committee that the Board was not a committee set up under the Local Government Acts, but a specific creation of the relevant regulations under general public sector pension legislation; therefore requirements such as political balance did not apply. The Board was not a decision making body, its role was to "assist" the Administering Authority/Scheme Manager, with the Pension Committee retaining responsibility for all decisions in respect of the management of investments and the administration of the LGPS. He clarified that the reference under 2.18 of the report to the special responsibility allowance was in relation to the allowance of £2751 p.a. paid to the Chair of Pensions Committee, not to members of the Committee.

Members were advised that there were restrictions on which Wirral Council Members or officers may be members of the Board in order to prevent a conflict of interest. It would not be possible to sit on both the Pension Fund Committee and the Pension Board, whilst no officer involved in the running of the Fund could be either an employer or employee representative. It was possible to appoint other Board

members who did not fall into either the employer or employee category, for example an independent Chair. The roles of the various governance bodies were set out in the report together with the proposed composition of the Wirral Pension Board, the appointment process, remuneration of Board Members and the Terms of Reference and the Timetable for the Board.

The Chair thanked the officers for the considerable amount of work involved and for clarification informed members of the Committee that, given the time restraints, as confirmation was still awaited from Government any changes necessary would be presented to the Chair before being presented to the Council on 16 March, 2015.

Resolved – That;

1. Pensions Committee agrees and recommends to Council:

a) the establishment of a Pension Board pursuant to regulations (The Local Government Pension Scheme (Amendment) Regulations 2014) in accordance with the Terms of Reference set out in appendix1, subject to the membership being agreed by Council and the Terms of Reference being amended to confirm that the Board shall be quorate providing a minimum of 4 members are present.

b) the Pension Board shall have the authority to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

c) the establishment of a selection panel by the Council in accordance with appendix 3 to consider and assess applications received and undertake interviews. The selection panel is to make recommendations to Council with regard to appointment of members to the Board.

d) the Head of Pension Fund be authorised to implement the administrative arrangements required to undertake a recruitment exercise necessary for the selection and appointment of members to the Board.

e) the definition of independent member for the purposes of the Board shall be agreed as:

- not a current elected member or employee of a participating scheme employer**
- has not been an elected member or employee of a participating scheme employer in the past 5 years**

f) in respect of the two active member representatives, the initial appointment to the Board for one of the representatives shall be for a term of 6 years and the other for 4 years; that in respect of the two representatives of local authorities, Police/Fire/Transport authorities and Parish Councils, the initial appointment to the Board for one of the representatives shall be for a term of 6 years and the other for 4 years.

g) the Pensions Committee (and the Heads of the Pension Fund and of Legal and Member Services after consultation with the Chair of the Pensions Committee prior to the meeting of the Council in March 2015) may recommend to Council changes to the Board and its Terms of Reference having regard to the final form of regulations and statutory guidance.

2. the Selection Panel's Terms of Reference as set out in Appendix 3 shall be that:

- it shall comprise 3 elected members**
- it shall not consist of current Pensions Committee members**
- there shall be two advisors to the selection panel: the Head of Pension Fund and a representative from the Fund's external auditors**

3. the following amendments be made to the Board's terms of reference set out in appendix 1.

a) Section 3 "Members of the Board shall cease to be a member of the Board if they do not attend two consecutive meetings and fail to tender apologies which are accepted by the Board" be substituted for "Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the majority agreement of all the other members. The removal of the independent member requires the consent of the Scheme Manager".

b) Section 3 the following shall be added: " In the event of the independent member not being available for a Board meeting, a Vice Chair for that meeting shall be determined by the Board members".

63 MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2015/16

A report of the Strategic Director of Transformation & Resources requested that Members approve the budget for the financial year 2015/16.

The headline figures were that during the financial year 2015/16, it was estimated that MPF would pay £267m in pensions and receive £184m in contributions from employers and employees. The Fund had a value of £6.4bn at 30 September 2014. The proposed administration costs of £17.2m including £11.2m of investment management charges to external managers represented a cost of £135.61 per member of the scheme. Taken separately the external investment management costs were approximately £88.29 per member.

It was reported that the estimated contributions for 2015/16 were lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2013 triennial valuation as a one off payment. This had resulted in the Fund receiving additional contributions of £165m during 2014/15, with the subsequent 2 years contributions being lower to account for the upfront payments.

The methods used to compile estimates of expenditure for 2015/16 were included in the report and the budget for 2015/16 was attached as an appendix to the report.

Resolved – That;

1. the budget for 2015/16. (subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery) be approved.

2. a further report on the out-turn for 2014/15 with finalised estimates in particular for salary overheads, departmental & central support charges and Pension Boards for 2015/16 be presented to Pensions Committee Members in June 2015.

64 **MEMBER DEVELOPMENT PROGRAMME 2015**

Members considered a report that outlined the proposed programme for member development in 2015.

The outline training programme was attached as an appendix to the report. It comprised of a series of internal and external training events throughout the year. Individual papers may be brought to consider and approve attendance at each event and, if officers become aware of other appropriate events, Committee would be informed.

Peter Wallach, Head of the Pensions Fund indicated that the Local Government Pensions Committee-organised 'Fundamentals' course was considered essential for all members to complete. It provided a comprehensive overview of the LGPS and the 'trustee' role carried out by those serving on a pension committee/panel. The course would take place over three days (during October – December), at multiple dates and in multiple locations (Cardiff, Leeds & London). While considered essential for new members, longer serving members of Pensions Committee may also benefit from refresher training. The Head of Pensions also noted that two of the six IMWP meetings contained a formal training session that covered relevant/topical subject matter. Additionally, presentations by external professional organisations and the deliberative nature of all the working parties meant that attendance was regarded as an important element of Member development and dates would be circulated to new members in particular.

Members were made aware that it was a statutory requirement that the Fund's annual report includes detailed information on training events offered and attended by elected members. A register of Members' attendance at training and development events was kept and reviewed annually by the Governance & Risk Working Party.

Resolved - That the proposed training and development plan for 2015 be noted and approved.

65 **TREASURY MANAGEMENT STRATEGY**

Members considered a report that requested the approval of the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2015/16.

The policy statement was attached as appendix 1 to the report.

Resolved - That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2015/16 be approved.

66 CHANGE TO BLACKROCK MANDATE

Members considered a report of the Strategic Director of Transformation and Resources that provided the Committee with an update following some material changes made by BlackRock to the carrying out their developed Asia-Pacific ex-Japan equities mandate, including a change of fund manager.

Peter Wallach, Head of Pensions, reported that it had been decided to continue the mandate, which would continue to be subject to monitoring under established procedure. He reported that BlackRock had commenced managing a developed Asia-Pacific ex-Japan equities mandate for the Fund in October 2010, following a public tendering exercise. Merseyside Pension Fund's weighting to developed Asia-Pacific ex-Japan equities comprised 4% of its strategic asset allocation. This mandate for BlackRock was to manage half of this allocation. As at 30th November 2014, the portfolio had been valued at £121 million. The target of the mandate was to achieve, over a rolling three-year term, out-performance of 2% relative to the benchmark index of the MSCI Asia Pacific ex-Japan.

Members were informed that the mandate had been run by a portfolio management team based in Edinburgh, drawing on the firm's global analysis and risk management capacity. BlackRock had informed the Fund that, due to operational re-structuring, the implementation of its Asian equity strategies would no longer be carried out by the Edinburgh team. Responsibility for Merseyside Pension Fund's mandate would transfer to a well-established team based in Hong Kong. This team had been in place since August 2011, running pan-Asian equity strategies with a strong track record of success. Fund officers had then undertaken a due diligence process to determine if the new team was suitable to continue with the Fund's mandate.

It was reported that BlackRock was the world's largest asset management business, operating with global reach and considerable resources. At the time of the proposed transfer, the Hong Kong team were already managing the majority of the firm's Asian equity business. It had been determined that the proposed team demonstrated the requisite capacity and skill to manage the mandate, albeit with some variations in the investment process largely characterised by a greater use of qualitative analysis in portfolio construction and a wider pan-Asian focus. It had been agreed that the terms of the mandate would be altered to increase the off-benchmark capacity to 30%, which would allow for wider geographic allocation and tilting toward more small and mid cap stocks. It was reported that there was no indication that the proposed strategy had a higher volatility (expressing active risk) than the current portfolio.

The Committee were informed that BlackRock had agreed to meet all explicit costs (and half of the anticipated implicit spread costs) of implementing the transition to their target portfolio. The management fees were to remain unchanged. The mandate was due for formal review and re-tendering in 2016.

Resolved – That the changes made in fund management arrangements for the BlackRock Developed Asia-Pacific ex-Japan equities mandate be noted.

67 ELECTED MEMBER EDUCATIONAL EVENT

A report of the Strategic Director Transformation and Resources recommended that the Committee considers attendance by Members at the third 330 Consulting Elected Member Educational Event (EMEE) in the Palace of Westminster in London on Wednesday 18 February 2015. The agenda to the event was attached as an appendix to the report.

Peter Wallach, Head of the Pension Fund informed members that the previous 330 Consulting EMEE had been attended by party spokespersons. The event was designed for those members of Pensions Committees who were relatively new to their roles, but it was also open to other, more experienced, Committee members who would like a refresher on some key investment concepts and issues.

Resolved – That;

- 1. a delegation attend this event to include Councillors Treena Johnson, Nick Crofts, Geoffrey Watt, Paul Doughty and Chris Carubia and;**
- 2. any other members wishing to attend this event contact Peter Wallach, Head of the Pension Fund.**

68 IMWP MINUTES 25 NOVEMBER, 2014.

A report of the Director of Strategic Services provided the Pensions Committee with the minutes of the Investment Monitoring Working Party (IMWP) held on 25 November 2014.

The appendix to the report, the minutes of the IMWP on 25 November 2014, contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the minutes of the IMWP which were attached as an exempt appendix to the report be approved.

69 PROPERTY ARREARS

A report of the Strategic Director of Transformation and Resources requested that Members agree to the write off of £3,757.60 of unrecoverable rent arrears from the Fund's property portfolio.

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

Resolved – That the write-off of uncollectable property rental income of £3,757.60 be approved.

70 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.

71 EXEMPT IMWP MINUTES 25 NOVEMBER, 2014.

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

72 EXEMPT APPENDIX PROPERTY ARREARS

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