

PENSIONS COMMITTEE

Monday, 17 July 2017

<u>Present:</u>	Councillor	P Doughty (Chair)	
	Councillors	G Davies T Jones AER Jones B Kenny B Mooney	G Watt K Hodson C Povall P Cleary
	Councillors	P Lappin, Sefton Council	
<u>Apologies</u>	Councillors	J Fulham, St Helens Council Mr P Cleary, Unison	

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.

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

Councillor Paul Doughty declared a pecuniary interest by virtue of his wife 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 Paulette Lappin 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.

2 FOSSIL FUEL MERSEYSIDE - QUESTIONS TO THE PENSIONS COMMITTEE

The Chair of the Pensions Committee welcomed members of the public to the meeting. Prior to the meeting questions had been put to the Committee regarding the Fund's investment in Fossil Fuels and renewable energy. The Chair of the Committee indicated that the Director of Pensions would present a short statement responding to the specific questions raised on the Fund's renewable investments. The Chair commented that he was proud that the Fund was a leader in working with renewable energies – far more than other pension schemes and it was happy to engage with attendees. He proposed that a meeting be diarised with the group's

representatives, the Chair of the Pension Committee, the Director of Pensions and the Funds Responsible Investment Officer, Owen Thorne to discuss this issue in further detail. Members of the public addressed the Committee and commented that things were moving in the right direction and thanked members for listening.

3 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 21 March, 2017 be approved as a correct record.

4 **AUDIT FINDINGS REPORT**

Members gave consideration to the Audit Findings Report 2016 - 2017 prepared by Grant Thornton UK LLP. Grant Patterson, Engagement Lead, attended the meeting and reported upon the key issues contained in the report and responded to Members questions.

It was reported that the audit was now substantially complete and it was anticipated that an unqualified audit opinion would be provided in respect of the financial statements as shown in Appendix A: Audit opinion of the report.

The report confirmed that there were no significant facts or matters that impacted on the independence as auditors that were required or wished to be drawn to the Committee's attention.

Resolved – That the report be noted.

5 **STATEMENT OF ACCOUNTS 2016/17 AND LETTER OF REPRESENTATION**

Members gave consideration to a report of the Section 151 Officer that presented Members with the audited statement of accounts of Merseyside Pension Fund for 2016/17 and responded to the Audit Findings Report from Grant Thornton.

Donna Smith, Group Accountant, informed the Committee that subject to outstanding work, Grant Thornton had indicated there would be an unqualified opinion and there were no adjustments affecting the Fund's reported financial position for the year ended 31 March 2017 of net assets of £8.2bn and no recommendations.

It was reported that Grant Thornton's report had expressed a positive outcome from their audit of the accounts and referred to the accounts being prepared to a good standard with good supporting working papers.

Members noted that the Statement of Accounts, including notes had been prepared and available for audit by 31 May 2017, a month ahead of the statutory deadline. The audit had also been undertaken to a revised timetable, in preparation for revised statutory deadlines that come into force for 2017/18 reporting.

Resolved – That

- 1. having considered the amendments to the accounts, the Audit Findings Report and the Letter of Representation the audited Statement of Accounts for 2016/17 be approved.**

2. **the recommendations be referred to the Audit and Risk Management Committee.**
3. **congratulations be offered to Donna Smith, Group Accountant and the team for producing this work within the timescale.**

6 **DRAFT ANNUAL REPORT AND ACCOUNTS**

A report of the Managing Director Delivery provided Members with the draft Annual Report of Merseyside Pension Fund for 2016/17.

It was reported that the LGPS regulations required the Pension Fund Annual Report to contain the Fund Accounts and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.

International Standards on Auditing (UK&I) 810 (revised) required that auditors read any information published with the accounts. It also stated that the auditor should not issue an opinion until that other information was published.

The Fund's Statement of Accounts and the auditor's Audit Findings Report were separate items on the agenda and provided additional assurance that the annual report had been subject to independent scrutiny.

Resolved – That;

1. **the draft Annual Report of Merseyside Pension Fund for publication be approved.**
2. **Donna Smith, Group Accountant and the team be thanked for the work involved in producing the report.**

7 **BUDGET OUTTURN 16/17, FINAL BUDGET 17/18**

Members gave consideration to a report of the Managing Director of Delivery that requested that Members note and approve:

- the out-turn for the financial year 2016/17.
- the finalised budget for the financial year 2017/18.
- the 3 year budget for MPF as required for the annual report.

It was reported that the actual out-turn for 2016/17 was £19.8m, higher than the original budget approved 4 July 2016 of £19.2m and in line with the projected out-turn of £19.7m as reported at Pensions Committee on 23 January 2017.

The 2017/18 budget reported in January had been updated to reflect proposed staffing changes at the Fund, along with revised salary overheads and departmental & central support charges; the finalised 2017/18 budget was £20.9m.

It was reported that the Pensions Committee, at its meeting on 23 January 2017, had received an estimate of the out-turn for 2016/17 attached as appendix 2 of the report and it was also agreed that the Managing Director for Delivery would report back on the final out-turn. The finalised out-turn was included in appendix 1 to the report. The

actual out-turn for 2016/17 was higher than the projected out-turn reported in January 2016, due to the number of estimates required for the January report.

Pensions Committee at its meeting on 25 January 2016 had agreed the budget for 2017/18 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

The finalised budget is included in this report in appendix 1 of the report.

Resolved – That;

- 1. the out turn for 2016/17 be noted.**
- 2 the finalised budget for 2017/18 be approved.**
- 3 other issues for inclusion in the 2016/17 Annual Report including 3 year financial estimates be approved.**

8 LGPS UPDATE

A report of the Managing Director for Delivery provided an update to Members on the current position concerning potential amendments to the Local Government Pension Scheme and overriding pension policy that could affect scheme administration.

A synopsis of the prospective changes to the legislation was attached as Appendix 1 to the report.

The report also raised awareness of the publication of the 2016 LGPS Annual Report, gave details of scheme trends at a national level and a number of issues relating to governance of the Scheme; including difficulties faced by Academies in fulfilling their employer responsibilities as a consequence of non-standardised administrative and funding policies across the LGPS. It also advised of surveys by the Scheme Advisory Board and the Pensions Regulator with governance a particular focus.

Resolved – That the report be noted.

9 POOLING UPDATE

Members gave consideration to a report of the Managing Director for Delivery that provided Members with an update on pooling arrangements relating to MPF and the Northern Pool.

DCLG had requested that, by 21 April, all Pools provide a report on progress. A copy of the Northern Pool's report was attached as an exempt appendix to the report as it contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the report be noted.

10 **TRANSPARENCY CODE**

Members gave consideration to a report of the Director of Pensions that provided details of the Code of Transparency that had recently been announced by the Scheme Advisory Board.

It was reported that it had long been recognised that, in addition to the fees paid for investment management, there were further hidden costs incurred that were difficult to ascertain and so rarely reported in most pension fund accounts. There had been a number of initiatives to provide greater transparency in relation to those hidden costs. Merseyside Pension Fund had been a longstanding supporter of transparency in many areas of corporate governance and investment, and had been a proponent for greater consistency in the disclosure and reporting of all costs.

In November 2015, DCLG had set out its criteria and guidance for Investment Reform in the LGPS requiring administering authorities to bring forward ambitious proposals for pooling. One of the four primary criteria was cost savings and pools would be required to report investment performance and cost savings. It was important that this is undertaken in a consistent way.

On 18 May 2017, the Scheme Advisory Board had announced its proposals for encouraging greater fee transparency by investment managers. The Board viewed the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency was also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and was included in the government's investment reform guidance and criteria for LGPS pooling.

The Code was a voluntary code and covered the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board had worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.

It was noted that the Code was voluntary but it was anticipated that it would be adopted widely and pension funds were engaging with asset managers to encourage their participation. The current Templates only applied in relation to listed asset classes. Templates for unlisted asset classes such as private equity would be developed in due course. Peter Wallach, Director of Pensions, informed the Board that as this was likely to be a protracted period, the Fund was committing considerable resource to ensure costs relating to unlisted assets were collated.

Resolved – That the report be noted.

11 **PENSION BOARD ANNUAL REPORT**

Members gave consideration to a report of Mr John Raisin, Independent Chair of the Local Pension Board that had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its

members during its second year. The second year of the Board had been taken as from 1 May 2016 to 31 March 2017. The report also included a proposed Work Plan for 2017-18.

Under Section 11.3 of its Terms of Reference the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which was the Wirral MBC Pensions Committee. This review had been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 27 June 2017. Following consideration and approval by the Board the approved version of this review was presented to the Pensions Committee by the Independent Chair to the Pensions Board.

As the Board Members had been appointed on 15 May 2015 the review of the first year of the Board (2015/16) had covered the period 15 May 2015 to 30 April 2016. This review therefore of the second year of the Board (2016-17) covered the period 1 May 2016 to 31 March 2017.

Mr Raisin outlined the key points of the report and noted that the items considered had been agreed by the 9 members of the Board in its Work Plan. There were no recommendations to be made to the Pension Committee at this time and he highlighted that members had contributed positively to the work of the Board.

The Independent Chair also acknowledged the positive contribution that had been made by Mr Phil Goodwin, Employee Representative, who had died suddenly and unexpectedly in October 2016. Mr Raisin referred to the Pension Board costs of operation 1 April 2016- 31 March 2017 and also the proposed Pension Board Work Plan 2017-2018 which would be updated as necessary. He concluded his summary of the report by placing on record his appreciation and thanks to the Director of Pensions and officers who had been extremely helpful. The Chair of the Pension Committee commented that the Board worked well and noted that Members of the Pensions Committee were grateful for the work that it undertakes.

Resolved – That;

- 1. the Pension Board Review 2016-17 be received and approved.**
- 2. the proposed Work Plan 2017-18 be approved.**

12 ISS GUIDANCE UPDATE

A report informs of the Managing Director for Delivery informed Members of a High Court ruling that impinged on the guidance issued by the Secretary of State in relation to investment strategy statements.

Peter Wallach, Director of Pensions reported that in September last year the DCLG had issued statutory guidance on preparing and maintaining an investment strategy statement (ISS).

Following a case brought by the Palestine Solidarity Campaign, the High Court had ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance on preparing and maintaining an investment strategy statement published in September last year was unlawful.

The reason given was that the Secretary of State had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes” The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgment, the inference was that that part of the statutory guidance referred to in paragraph 1 of the judgment was struck out.

The High Court had also been asked to judge whether (a) the guidance lacked clarity and certainty and (b) whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions were made. On both matters, the judge had ruled in favour of the Secretary of State.

Peter Wallach, Director of Pensions, informed Members that this would have no direct implication for the Pension Fund and the ruling would not affect the Fund’s ISS which had been approved by this Committee in March of this year.

Resolved – That the report be noted.

13 **PENSIONS ADMINISTRATION STRATEGY**

A report of the Managing Director for Delivery informed Members of the revised Pension Administration Strategy (PAS) and the intent to consult with employers as required by the Regulations subsequent to Pension Committee’s approval of the proposed changes to the policy and operational practice.

The draft PAS for consultation was attached as Appendix 1 to the report and it was reported that the revised PAS would be applicable from April 2018.

Resolved – That;

- 1. the draft PAS and proposed charging schedule for consultation with employers be approved.**
- 2. in order to enable the effective implementation of the Strategy from 1 April 2018 Fund Officers be delegated the responsibility to respond to consultation feedback.**

14 **TREASURY MANAGEMENT ANNUAL REPORT**

Members gave consideration to a report of the Managing Director, Delivery that presented a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2016/17 financial year and reported any circumstances of non-compliance with the treasury management strategy and treasury management practices. It had been prepared in accordance with the revised CIPFA Treasury Management Code.

It was noted that Treasury Management in Local Government was governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context was the “management of the Fund’s investments and cash flows, its banking,

money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”.

On 25 January 2016 Pensions Committee had approved the Treasury Management Policy and Strategy 2016/17.

The report related to money managed in-house during the period. It excluded cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

It was reported that the Treasury Management Code required public sector authorities to determine an annual Treasury Management Strategy and, as a minimum, to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enabled those tasked with implementing policies and undertaking transactions to demonstrate that they had properly fulfilled their responsibilities and enabled those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid-year was met via regular reports to the Investment Monitoring Working Party (IMWP).

Resolved - That the Treasury Management Annual Report for 2016/17 be agreed.

15 **PLSA CONFERENCE**

A report of the Managing Director, Delivery requested nominations for members to attend the Pensions & Lifetime Savings Association (PLSA) formerly National Association of Pension Funds (NAPF) Annual Conference & Exhibition 2017 to be held in Manchester from 18 October to 20 October 2017. A link to the programme was included in the report;

http://plsa.co.uk/Conferences_and_Seminars/Annual_Conference_And_Exhibition/Programme.aspx

Resolved – That attendance at the PLSA Annual Conference be approved and the Director of Pensions arrange for members be circulated with details of the event.

16 **FUNDAMENTALS TRAINING**

A report of the Managing Director Delivery recommended the Committee to approve participation by Members in the LGPS Trustee Training ‘Fundamentals XVI’ organised by the Local Government Pensions Committee.

The fundamentals course was run on an annual basis and provided an insight to LGPS ‘trusteeship’ for newly elected Committee members whilst also serving as an update/refresher course for longer-serving members. The course would be of three days duration, spread over a number of months at three locations around the UK. As identical material is delivered at each location, it would be possible to attend the course by visiting different locations should delegates’ diaries not allow attendance on all three days at a particular location. Dates for this training would be confirmed to members.

The Chair of the Committee encouraged members to attend this training event and it was;

Resolved – That;

- 1. attendance by Members on the ‘Fundamentals training’ be approved.**
- 2. Members wishing to take advantage of this opportunity notify the Director of Pensions to enable the necessary registration and administration to be undertaken.**

17 LGC INVESTMENT SUMMIT

Members gave consideration to a report of the Managing Director, Delivery that requested nominations for members to attend the Local Government Chronicle (LGC) Investment Summit, to be held in Newport from 6 to 8 September 2017.

It was reported that the conference would be themed “Navigating the New Landscape” and would provide critical insight to the ongoing debate about the future investment of pension funds in Local Government.

Members were informed that attendees would benefit from essential keynote presentations and topical breakout sessions on investment themes, as well as valuable networking opportunities to share concerns with peers and fund managers.

A draft agenda for the conference was attached to the report. It was noted that MPF had been represented at all previous LGC Investment Summits usually by the Chair of Pensions Committee and party spokespersons.

Resolved – That attendance at the Local Government Chronicle (LGC) Investment Summit be approved and the Director of Pensions arrange for members be circulated with details of the event.

18 MTAA UPDATE REPORT

A report of the Managing Director for Delivery provided members with an update on progress to date with the Fund’s Medium Term Asset Allocation Strategy (MTAA) and an explanation of the delay in retendering the contract.

It was reported that the MTAA Strategy had been initiated on 31st January 2014. The framework for the implementation of the MTAA Strategy had been presented to the Pensions Committee at its meeting on 10th September 2013.

The objectives of the framework were:

- To reduce the risk of underperformance caused by unintended asset allocation positions from the Fund’s strategic benchmark.
- To implement in a timely fashion intended asset allocation positions from the Fund’s strategic benchmark with a return target of 0.25% per annum on a rolling 3 year basis.

Details of the estimated costs for the MTAA strategy had been reported to the Pensions Committee in September 2014.

Members had approved additional expenditure to the current advisers Aon Hewitt the Fund's strategic investment consultant until such time as a formal tender exercise could be completed.

The procurement exercise had been included in the MPF Business Plans for 2015/16 and 2016/17. However, separate advisory services had not as yet been procured as a result of delays to the development of the "Norfolk Framework", a national consultancy framework. Members were informed that it was currently anticipated that the National Framework would be established by October 2017 and the Fund would be able to re-tender for the advisory work currently carried out by Aon Hewitt under the auspices of this framework.

Resolved – That the update to the Fund's MTAA strategy be noted.

19 **MONITORING OF INVESTMENT MANDATES**

Pensions Committee gave consideration to a report of the Managing Director for Delivery that advised members that officers of the Pension Fund were currently reviewing the existing monitoring regime across all investment mandates.

The original monitoring policy had been established and approved by Pensions Committee on 31 March 2008. The policy had subsequently been amended in a framework which had been approved by Pensions Committee in March 2012. The key changes made were to reflect the new mandates that the Fund had established since 2008 with the policy on "trigger points" and consequences remaining unchanged.

With the passage of time and the increasing importance of "alternative" assets within the Fund's strategic asset allocation structure, officers of the Fund were currently conducting a review of the existing monitoring policy with a view to making further changes to the overall framework in order to reflect the portfolio developments that had taken place since 2012.

It was reported that once this exercise is completed, an amended monitoring framework would be presented to Pensions Committee for approval.

Resolved – That the contents of the report be noted.

20 **TPR COMPLIANCE REPORT**

A report of the Managing Director, Delivery provided an update to Members on Merseyside Pension Fund's assessment of compliance against the Pension Regulator (tPR) Code of Practice No.14 in relation to the key areas of governance and administration that had been identified by the regulator as crucial in demonstrating effective stewardship of the Scheme.

The assessment was intended to provide assurance to committee in their capacity as the statutory body responsible for delivering the effective and efficient governance and administration of Merseyside Pension Fund.

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

It was reported that although there had been significant advances over the last twelve months in relation to record keeping and communicating with members, there remained scope for further improvement as both areas had been assessed as retaining their amber rating.

The proposed developments required to target full compliance were noted within the self-assessment document, attached as exempt Appendix One.

Members were informed that officers would keep both the Pension Committee and Pension Board apprised of progress achieved against the identified areas of improvement in relation to record keeping and communicating with members.

Resolved – That the Fund’s self- assessment against the tPR Code of Practice and the developmental work required to attain full accreditation in relation to record keeping and member communications be noted.

21 IMWP MINUTES 06/04/17 & 16/06/17

A report of the Managing Director, Delivery provided Members with the minutes of the Investment Monitoring Working Party held on 6 April and 16 June 2017.

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).

Resolved – That subject to the amendment to include the attendance of Councillor Brian Kenny to the minutes of the IMWP held on 16 June, 2017 that the minutes be noted.

22 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.

23 POOLING UPDATE EXEMPT APPENDICES

The appendices to the report on Pooling Update were exempt by virtue of paragraph 3.

24 **TPR COMPLIANCE EXEMPT REPORT**

The appendix to the report on tPR Compliance was exempt by virtue of paragraph 3.

25 **IMWP EXEMPT MINUTES 06/04/17 & 16/06/17**

The appendix to the report on IMWP Minutes 09/04/17 & 16/06/17 was exempt by virtue of paragraph 3.

26 **VENUE FOR NEXT MEETING OF THE PENSION COMMITTEE**

Members of the Committee discussed the venue of the next meeting of the Pensions Committee as this meeting had been arranged to be held in Birkenhead Town Hall instead of Wallasey Town Hall as access was easier by public transport. As it was hoped that this would facilitate the attendance of Co-opted members from other boroughs members agreed that the next meeting of the Pensions Committee on 18 September, 2017 be held in Birkenhead Town Hall.