

LOCAL PENSIONS BOARD

Wednesday, 5 February 2020

Present:

J Raisin (Chair)

G Broadhead

R Irvine

D Ridland

P Maloney

P Wiggins

L Robinson

Apologies

P Fieldsend

98 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked to declare any disclosable pecuniary and non-pecuniary interests in connection with any item(s) on the agenda and state the nature of the interest.

Mr Geoff Broadhead declared a pecuniary interest by virtue of being a Board Member of Magenta Living.

99 **MINUTES**

Resolved – That the accuracy of the meeting of the Local Pension Board held on 12 November 2019 be approved as a correct record.

100 **PENSION BOARD REVIEW**

The Independent Chair of the Local Pension Board indicated that at the meeting of the Pensions Committee held on 3 Feb 2020 he had presented the Pension Board Review. Members of the Committee had expressed their thanks to the Local Pension Board and had requested that he pass on thanks to Members.

101 **LGPS UPDATE**

A report of the Director of Pensions provided Board members with copies of a recent LGPS update report taken to Pensions Committee.

The Head of Pensions Administration gave an update on the 'McCloud Case', which related to the transitional protections afforded to those members of public service pension schemes who were closest to retirement age when the schemes were reformed under the Public Service Pension Act 2013.

In addition, it updated Members on the High Court decision to transfer Equitable Life policies, (the legacy Additional Voluntary Contributions (AVC) provider for Merseyside Pension Fund) to Utmost Life and Pensions with effect from 1 January 2020.

The Head of Pensions Administration reminded members that at the meeting of the Pensions Committee on 4 November 2019 (minute 37 refers) Committee had been informed of the position in regard to the 'McCloud Case'; specifically, that the case would be returned to an employment tribunal for a decision as to the remedy for addressing the difference in member benefits.

On 15 November the Scheme Advisory Board (SAB) had published an update to confirm that the LGPS would be dealt with separately to other public service schemes and that the remedy was likely to involve an extension of some form of the 'underpin'.

Members were informed that technical discussions were expected to take place imminently between MHCLG and the SAB, with a consultation on proposed changes expected to follow. However, it was not expected that any remedy would be implemented before the end of the 2020-21 financial year.

As the remedy would be applied retrospectively, the Fund had communicated to employers the possibility that data such as part-time hours, service breaks, and the pre-2014 definition pensionable pay may need to be provided at a future date. There was therefore a requirement that employers had systems and procedures in place to collect and hold this data.

Members were informed that the SAB website provided an overview of the case along with FAQ and could be accessed from the following link:

<https://www.lgpsboard.org/index.php/structure-reform/mccloud-page>

With reference to the update provided at the last Pensions Committee meeting relating to the transfer of Equitable Life policies, The Head of Pensions Administration confirmed to members that the Fund as policy holder had voted in favour of the transfer by the deadline of 30 October.

Scheme policy holders and 'eligible members' had voted overwhelmingly in favour of the proposed changes. Consequently, the High Court had been asked to approve the Scheme and Transfer on 22 November 2019.

Court approval to transfer the business of Equitable Life to Utmost Life and Pensions had been received on 4 December 2019. The Fund had updated members of the position by letter during December and had provided information on the AVC products provided by Utmost Life and Pensions along with the default AVC Funds selected by MPF upon the advice of its professional advisors.

The Head of Pensions Administration informed the Committee that the next steps would be:

- the 'uplift' would be applied to 'with-profits' policies as soon as practicable after 1 January 2020; and
- 'with-profits' policies would be converted to unit-linked policies from 1 January 2020.

The Head of Pensions Administration responded to a Members question regarding communications sent to employers with regard to the provision of part time hours and service breaks for the period from 1/4/2014 and in particular the consequences of the employer not retaining data.

The Head of Pensions Administration clarified that there was a statutory requirement for employers to retain payroll information for the previous 6 years. The Fund had also communicated the national template on data retention for LGPS employers in November 2019 which raised awareness of a legal opinion to retain payroll and HR data for a period of 15 years post termination of employment.

Resolved – That the report be noted.

102 **ACTUARIAL VALUATION**

A report of the Director of Pensions provided Board members with copies of a report taken to Pensions Committee that provided a summary of the findings of the 2019 Actuarial Valuation.

The Head of Pension Administration introduced the report and responded to Members questions. Members were informed that the purpose of the valuation was to set a funding plan that would strike a balance between Fund solvency, long-term cost efficiency of the scheme and affordable employer contributions for the financial period 1 April 2020 to 31 March 2023. The emerging whole fund results presented a funding level of 102% with an associated surplus of £206m and an average employer future service cost of 17.1% of pay.

The position presented had followed in-depth discussions between the Fund Actuary (Mercer), officers and constituent employers in relation to the core financial and demographic assumptions. All individual employer results had been provided to employers in November setting out their initial valuation results and the potential impact that the McCloud case could have on their results. The results were subject to consideration of employer covenant and where necessary further meetings might take place upon completion of the covenant review. Employers must notify the Fund if they intended to

include/exclude the McCloud allowance within their contributions. Where employers did not respond to the Fund, the default would be that the McCloud contributions would be included.

Members were informed that in order to undertake the valuation, the Actuary must have regard to the draft funding assumptions which had been updated following a formal consultation with all interested parties, which had commenced on 4 November with feedback requested by the end of November 2019. The draft Funding Strategy Statement (FSS), approved by the Pensions Committee held on 3 February 2020 had been updated to take account of the feedback from employers. All contributory policies and statutory statements to support the valuation process were covered under separate reports at this Committee meeting.

The report informed that the Local Government Pension Scheme Regulations 2013 provided the statutory framework for the valuation process. The regulations required an actuarial assessment of the Fund's assets against the current value of the pension liabilities, with a corresponding funding level to be declared every three years. The report included valuation results, an analysis of the change since 2018, future service contributions and valuation assumptions and a demographic assumptions update.

Resolved – That the report be noted.

103 **FUNDING STRATEGY STATEMENT**

Members gave consideration to a report of the Director of Pensions that had been considered by the Pensions Committee at the meeting held on 3 February 2020. The final proposed Funding Strategy Statement was attached as an appendix to the report. The Head of Pension Administration informed members that there would be minor drafting changes between now and the statutory deadline of 31 March 2020. The Pensions Committee had approved the draft Funding Strategy Statement and delegated the refinement and finalisation of the draft FSS by 31 March 2020 to the Director of Pensions.

The report informed that the Local Government Pension Scheme (LGPS) regulations provided a statutory framework under which the Administering Authority was required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

A consultation with employers regarding the updates to the draft FSS had taken place in November 2019. To assist employers, the Fund Actuary had communicated the key FSS changes at employer meetings during November. Once approved, the FSS would be refined and finalised by the Fund Officers in conjunction with the Fund Actuary. Members were informed that the deadline for finalisation of the draft FSS would be 31 March 2020.

Following a pilot of prepayment of Future Service contributions by large employers the Board requested an update report be brought to a future meeting of the Local Pensions Board on the impact on the operational activities of administration, treasury management and investment management.

Resolved – That;

- 1 The report be noted.**
- 2 Following a pilot of prepayment of Future Service contributions by large employers an update report be brought to a future meeting of the Local Pensions Board on the impact on the operational activities of administration, treasury management and investment management.**

104 **REVISED INVESTMENT STRATEGY**

Members gave consideration to a report of the Director of Pensions that had been taken to Pension Committee on 3 February 2020 (Minute 57 refers). The report provided Members with details of the proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation. The Investment Strategy Statement was attached as appendix to the report.

The Director of Pensions informed Members of the Board that Regulation 7(1) of the LGPS Investment Regulations 2016 required an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The authority must review and if necessary, revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

The report informed that in conjunction with the Actuarial Valuation and Funding Strategy Statement (the subject of separate reports on the agenda), the investment strategy was reviewed with the Funds advisors to ensure that the Funds asset allocation would deliver investment returns over the long term to secure the long-term solvency of the Fund.

On behalf of Members of the Board Geoff Broadhead expressed thanks to the Director of Pensions and officers for the clarity of the reports which Members agreed presented complex issues in an easy to understand way.

Resolved – That the report be noted.

105 **TREASURY MANAGEMENT POLICY**

The Head of Finance and Risk introduced a report that provided Board members with a copy of the Treasury Management Policy recently taken to Pensions Committee.

The annual approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund by Pensions Committee formed part of the governance arrangements of Merseyside Pension Fund Management Policy recently taken to Pensions Committee.

The policy statement was attached as Appendix 1 to the report. It was reported that there were no significant changes to the policy followed for 2019/20.

The Independent Chair commented that he welcomed that this report went to both the Pensions Committee and the Local Pensions Board.

Resolved – That the report be noted.

106 **PENSION FUND BUDGET**

The Head of Finance and Risk introduced a report that informed Board members of the Budget report to Pensions Committee. The budget for 2020/21 was attached as an appendix to the report.

Members were informed that in the Good Governance review, it was proposed “that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this”. The report stated that “Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers”. As set out in the appendix to the report, officers believed that this budget would fulfil this expectation.

Resolved – That the report be noted.

107 **MEMBER DEVELOPMENT PROGRAMME**

The Director of Pensions introduced a report that provided Board members with a copy of a recent report to Pensions Committee on this subject. The report informed the Board of training and development opportunities provided to members of Pensions Committee. A number of these opportunities were

also available to Board members. It also reminded Board members of their training responsibilities.

The Independent Chair reminded Members that there was also the opportunity to observe the Investment Monitoring and Governance and Risk Working Parties as an observer.

Resolved – That;

- 1 The report be noted.**
- 2 That members wishing to attend any additional training events or attend the Working Parties submit their name to the Director of Pensions office.**

108 **GOOD GOVERNANCE PROJECT**

The Head of Pensions Administration introduced a report that had been taken to the Pensions Committee that provided Board members with an update on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the publication of the Phase II REPORT ON 15 November 2019.

Members were informed that the requirement for strong governance had led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance. The review focussed on the effectiveness of the LGPS governance models and considered alternatives or enhancements to existing models which could strengthen governance going forward whilst maintaining strong links to demographic accountability.

Resolved – That the report be noted.

109 **WORKING PARTY MINUTES**

Members gave consideration to a report that provided Board members with copies of working party minutes since the previous Pension Board meeting.

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 the report be noted.

110 **PROPERTY ARREARS**

The Head of Finance and Risk introduced a report that provided Board Members with a copy of report to Pensions Committee that had requested that Members agree to the write off of £61,310.98 of unrecoverable rent arrears from the Fund's property portfolio.

Appendix 1 & 2 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 the report be noted.

111 **INTERNAL MANAGEMENT**

The Director of Pensions introduced a report that informed Board members of a report to Pensions Committee that provided an update on the progress made in the development of the internal investment management team, the implementation of internally managed investments and delivery of cost savings. Approval had also been sought to implement an internally managed equity portfolio in respect of the Asia Pacific markets.

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;

- 1 The report be noted.**
- 2 The Pension Board request the Director of Pensions to report to a future meeting of the Board on developments and recruitment of staff.**

112 **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.

113 **WORKING PARTY MINUTES**

The appendix to the report on the IMWP Minutes were exempt by virtue of paragraph 3.

114 **PROPERTY ARREARS**

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

115 **ADMIN KPI REPORT**

The Pension Board received and gave consideration to an exempt report of the Director of Pensions. The report provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 October 2019 to 31 December 2019. The Head of Pensions Administration outlined the report and responded to questions from Members relating to the delivery of the service.

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 person, including the authority holding that information.

On behalf of the Board the Independent Chair thanked the Head of Pensions Administration and her team for the report.

Resolved – That the report be noted.

116 **INTERNAL MANAGEMENT**

The report on the Risk Register was exempt by virtue of paragraph 3.

117 **RISK REGISTER**

The Pension Board received and gave consideration to an exempt report of the Director of Pensions that provided Board members with a copy of the Fund's Risk Register.

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 the report be noted.

118 **COMPLIANCE WITH TPR CODE OF PRACTICE 14**

The Independent Chair agreed to consideration of the following exempt item as a decision was required before the next meeting of the Pension Board. The item was exempt 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).

The Board discussed the circumstances of the breach of pension law and designated officer assessment as a non-reportable event to both TPR and the Information Commissioner, in accordance with the breaches policy.

Resolved - The Board raised concern as to the sensitivity of the personal information erroneously shared with members contained within the batched file but agreed the conclusion of the Wirral Council Monitoring Officer and the Head of Pension Administration in accordance with the Data Protection Act 2018, GDPR Recital 85 and TPR Decision Tree outlined in the Code of Practice.