

LOCAL PENSIONS BOARD

Tuesday, 27 June 2017

Present: Councillor J Raisin (Chair)
Councillors M Hornby P Maloney
K Beirne R Irvine
D Ridland

Apologies G Broadhead P Wiggins

1 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.

No such declarations were made.

2 MINUTES

Resolved – That the accuracy of the Minutes of the Local Pension Board held on 16 March, 2017 be approved as a correct record.

3 LGPS UPDATE

Members were provided with the LGPS updates that had been taken to Pensions Committee since the previous Board meeting and were attached as appendices to the report.

Yvonne Caddock, Principal Pension Officer, informed the Board of the Fund's response to the separate consultations on Pension Scams and the Indexation/Equalisation of Guaranteed Minimum Pensions (GMPs) in Public Service pension schemes. The Fund responses to the government consultations discussed at the last Pension Committee were attached as appendices to the report. The Principal Pension Officer also noted that the Chair of the Pensions Board had been consulted and his comments included in the responses. The report further provided an update on the draft LGPS (Amendment) Regulations and the Enterprise Act 2016 Commencement Order. The statutory order SI2017/70 had been issued by HM Treasury with an effective date of 1 February 2017 and was available from the following link

<http://www.legislation.gov.uk/uksi/2017/11/contents/made>

Resolved – That the report be noted.

4 REVIEW OF ACTUARIAL VALUATION

A report of the Director of Pensions provided members with a summary of the Actuarial Valuation process which had culminated in the Funding Strategy Statement that had been approved at Pensions Committee on 21 March 2017.

Peter Wallach, Director of Pensions, informed Members that the purpose of the actuarial valuation was for the Administering Authority to determine:

- The expected cost of providing the benefits built up by members at the valuation date ('the liabilities') and to compare this against the funds held by the Fund ('the assets').
- The contributions needed to cover the cost of the benefits that active members would build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').
- An appropriate plan for making up the shortfall if the Fund had less assets than liabilities. This plan would cover the amounts which would need to be paid (the Secondary Contribution Rate') and the timeframe over which they would be paid ('the Recovery Period').

Fundamental to the valuation results was the funding strategy adopted by the fund. This was set out in the Funding Strategy Statement (FSS). The FSS provided an overview of the approach to be used for the actuarial valuation including economic and demographic assumptions and how any shortfall was expected to be financed. There was an important inter-relationship between the FSS and the Investment Strategy Statement. The ISS was a separate report on the agenda.

The Fund's investment strategy was kept under regular review by officers and elected members. The strategic investment consultant attended the Fund's Investment Monitoring Working Party meetings along with the independent advisors where investment strategy is considered. However, a fundamental review was undertaken at the time of the triennial valuation to ensure that the strategy remained appropriate for the Fund.

It was noted that the most significant consideration at this valuation was the move to a CPI linked valuation basis. The persistence of low interest rates, buoyancy of asset markets and increasing maturity of the Fund were also important.

Based on the actuary's assumptions, the investment consultant had undertaken a review of the investment strategy, modelling cash flows, investment returns/correlations and asset allocation to provide a stochastic projection of the Funded Status on the 'Ongoing Basis'. Following detailed

discussions with officers on these and other investment matters, which explored various permutations; a revised asset allocation had been formulated with officers and approved by elected members.

It was reported that the revised asset allocation had become effective from April 2017.

Resolved – That the report be noted.

5 DRAFT PENSIONS ADMINISTRATION STRATEGY

A report of the Director of Pensions informed Board Members of the revised Pension Administration Strategy (PAS) and the intent to consult with employers as required by the Regulations upon Pension Committee approval of the proposed changes to the policy and operational practice.

It was reported that the Fund had undertaken a review of the PAS which had last been updated in 2013 to accommodate procedural changes resulting from the introduction of both the LGPS Miscellaneous Regulations 2012 and Automatic Enrolment legislation.

It was reported that the introduction of the new CARE benefit design in April 2014 and associated final salary benefit protections had compounded the increasing complexity of administering the LGPS. Consequently, the importance of data quality and the necessity for equitable allocation of Fund resources across employers was greater than ever and had informed the review of the PAS.

The primary purpose of the review was to continue progress towards a seamless pension service, employing appropriate technology and best practice to both significantly improve the quality of information and the speed with which it was processed providing a more efficient service to Fund members.

The PAS covered primary matters as outlined in the Regulations such as administration standards, performance measures and communication with employers. It also set out the key undertakings and responsibilities of both the Fund and participating employers.

Members were informed that the PAS recognised that significant work would need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers would need to work in partnership to meet this challenge.

The Fund, like all public sector organisations, was under pressure to manage its costs and evaluate current operational functions. Therefore, resources

must be utilised to ensure compliance with statutory duties and responsibilities as defined within the LGPS regulations and overriding Pension legislation.

The LGPS regulatory framework allowed an Administering Authority to recover costs from an employing authority where costs had been incurred because of unsatisfactory performance and also to remove cross-subsidy of costs resulting from any inequitable allocation of resources.

The PAS had been revised to clearly document an extended charging policy in circumstances of persistent failure by an employer to meet administration requirements and for the provision of additional pension entitlement calculations or bespoke administration tasks.

The report further set out the timetable for implementation and it was noted that the revised PAS would be applicable from April 2018 and a draft version was attached as an appendix to the report for consideration.

Following overview of the Board and formal approval by Pension Committee, the Fund would shortly issue this document to employers for comment and feedback as part of the statutory consultation process

The consultation period was scheduled to commence from the end of July until the end of September. Work would then be undertaken to review the feedback and revise the strategy as required. The final version of the strategy would then be published in November 2017 for Pension Committee approval, in preparation for its implementation in April 2018.

Resolved – That the PAS and the proposed schedule be noted and progressed as outlined in the report.

6 INVESTMENT STRATEGY STATEMENT

Members gave consideration to a report that provided members with a copy of the Investment Strategy Statement which had been taken to March Pensions Committee. The draft Investment Strategy Statement (ISS) was attached as an appendix to the report.

Resolved – That the report be noted.

7 TRANSPARENCY CODE

Members gave consideration to a report of the Director of Pensions that provides 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 apply 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.

A report of the Director of Pensions provided the Board with details of update reports that had been taken to Pensions Committee on 21 March 2017 in respect of pooling arrangements relating to the Northern Pool.

The report noted that Pooling would result in fundamental changes to oversight and management of LGPS assets. It was essential that appropriate governance arrangements were put in place to ensure that Pensions Committee could exercise its responsibilities in accordance with the Council's constitution.

Resolved – That the report be noted.

9 DRAFT ANNUAL BOARD 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 has 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 has been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 27 June 2017. Following consideration by the Board an approved version of this review would be presented by the Independent Chair to the Pensions Committee at its meeting to be held on 17 July, 2017.

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 highlighted the 88% attendance at Board meetings which demonstrated the commitment of members. He also referred to a detailed report covering a broad range of Pensions Administration matters and containing extensive statistical reporting that the Principal Pensions Officer had prepared and presented in March 2017 which he considered essential and commented that it was very positive that this was happening.

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 training that had been undertaken by members of the Board and noted the Work Plan which would be updated as necessary. He acknowledged the attendance of Mr Joe Blott, Managing Director for Delivery which he commented was very positive. He concluded his summary of the report by placing on record his

appreciation and thanks to the officers for the support and guidance he had received.

Resolved – That;

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

10 **TPR ASSESSMENT**

A report of the Principal Pensions Officer updated the Pension Board 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, identified by the regulator as crucial in demonstrating effective stewardship of the Scheme.

The assessment was intended to provide assurance to board members in their capacity as the statutory body responsible for assisting the Scheme manager, in ensuring the effective and efficient governance and administration of Merseyside Pension Fund.

The appendices 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).

Yvonne Caddock, Principal Pensions Officer outlined the report to members and highlighted that to stress test compliance against the code, Officers had established a traffic light based model to undertake a self-assessment in adherence to the code – this had been presented to the Pension Board for comment at its meeting in June 2016. Officers had adopted a condensed monitoring programme formulated by tPR and had undertaken a further review of compliance against code of practice 14.

It was reported that the Fund had also completed the online assessment provided by the tPR and a copy of the results showing full accreditation in all areas was attached at Exempt Appendix Two of the report

Officers would keep the Pension Board apprised of progress achieved against the identified areas of improvement in relation to record keeping and communicating with members.

Resolved – That the report be noted.

11 **COMPLIANCE MANUAL**

Members of the Board gave consideration to a report of the Director of Pensions that provided a copy of the Fund's Compliance Manual that had been taken to March Pensions Committee.

The appendix to this 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 the Compliance Manual set out the powers, duties and responsibilities of officers in respect of the financial services legislative and regulatory regimes relevant to MPF. Although the Pension Fund was not regulated by the Financial Conduct Authority (FCA) the manual incorporated, where appropriate, best practice as set out by the FCA and the codes of other professional bodies.

Resolved – That the report be noted.

12 **WORKING PARTY MINUTES**

The Director of Pensions submitted the IMWP minutes and GRWP approved by Pension Committee since the last Pension Board meeting and were attached as exempt appendices to the report.

The appendix to the report, the minutes of the GRWP on 7 February 2017 and IMWP on 9 February 2017, contains exempt information. This is 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 report be noted.

13 **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.

14 **TPR ASSESSMENT EXEMPT REPORT**

The appendices to the report on the TPR Assessment was exempt by virtue of paragraph 3.

15 **COMPLIANCE MANUAL EXEMPT REPORT**

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

16 **ADMINISTRATION KPI EXEMPT REPORT**

The report on the Administration KPI Exempt Report was exempt by virtue of paragraph 3.

17 **WORKING PARTY EXEMPT MINUTES**

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