

PENSIONS COMMITTEE

Monday, 22 January 2018

<u>Present:</u>	Councillor	P Doughty (Chair)	
	Councillors	B Berry (for Cllr K Hodson) G Davies T Jones AER Jones B Kenny	G Watt C Povall P Cleary
	Councillors	P Lappin, Sefton Council R Bannister, Unison retired member representative	
<u>Apologies</u>	Councillors	T Byron, Knowsley Council P Cleary, Unison Active Member J Fulham, St Helens Council K Hodson, Wirral Council B Mooney, Wirral Council	

56 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.

Mr 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 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 Cherry Povall declared a pecuniary interest by virtue of her daughter becoming 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

57 MINUTES

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 13 Nov, 2017 be approved as a correct record.

58 **LGPS UPDATE**

Members gave consideration to a report of the Director of Pensions that reviewed Merseyside Pension Fund's current policy concerning the provision of scheme pays for scheme members who breached HMRC's Annual Allowance limit for pension saving growth; thereby incurring a tax charge.

Peter Wallach, Director of Pensions outlined the report and informed Members that the Fund's current policy had been approved by Members at the Pension Committee meeting dated 20 November 2012 (minute 44 refers) and limited the requirement for the Fund to meet member tax charges in circumstances of mandatory scheme pays. It was recommended that this policy be maintained subject to the transitional arrangements detailed in the report.

Under the current HMRC tax regime, individuals had a pension Annual Allowance (AA) which was the maximum amount that the value of retirement savings could increase in a year (6 April to 5 April) without incurring tax charges.

It was reported that the AA limit had been reduced in April 2014 from £50,000 to £40,000. If an individual's annual allowance Pension Growth in any one year (including pension savings outside of the LGPS) was greater than the annual allowance limit, the excess would be subject to the marginal rate of income tax.

Members were most likely to be affected if they had an LGPS pension based on their final salary, and they received a significant pay rise, or paid a high level of additional voluntary contributions.

Resolved – That;

- 1 in view of both the financial and administrative implications of the Fund permitting the use of voluntary scheme pays, that Committee limit the opportunity to circumstances where administrative difficulties result in the member missing the Mandatory Scheme Pays deadline.**
- 2 to allow members, subject to the tapered Annual Allowance for tax years 2016/17 and 2017/18, to utilise Voluntary Scheme Pays as pension savings have already been accrued.**
- 3 to inform future retirement planning, the Fund will communicate thereafter that those members subject to the tapered Annual Allowance from 2018/19 cannot request the Fund invoke Voluntary Scheme Pays on their behalf.**

59 **PENSION FUND BUDGET**

A report of the Director of Pensions requested that Members approve the budget for the financial year 2018/19. The budget for 2018/19 was attached as appendix 1 to the report.

Donna Smith, Head of Finance & Risk reported that the headline figures were that during the financial year 2018/19, it was estimated that MPF would pay £294m in pensions and receive £230m in contributions from employers and employees. The Fund had a value of £8.5bn at 30 September 2017. The proposed administration costs of £22.0m including £14.2m of investment management charges to external managers represented a cost of £164.10 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs were approximately £105.97 per member or 0.17% of assets under management.

The budget for 2018/19 was higher at £22.0m than £20.9m in 2017/18 primarily due to higher staffing costs following the finalisation and approval of the revised structure, increases to contracted services and consultants fees for investment management selection services, as a number of procurement exercises were planned during the year and increased IT expenditure with the workflow and image migration project continuing during 2018/19.

Resolved – That;

- 1 the budget for 2018/19 be approved (subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery).**
- 2 a further report on the outturn for 2017/18 with finalised estimates in particular for salary overheads and departmental & central support charges for 2018/19 be presented to Pensions Committee Members in July.**

60 **AUTHORISED SIGNATORY LIST**

A report of the Director of Pensions set out proposed changes to authorised signatories at Merseyside Pension Fund (MPF) following the retirement of the Assistant Director: Finance and to reflect the introduction of the new operating model. It also updated authorised signatories and job titles following the introduction of the revised structure at the fund.

The report described the different requirements for various institutions and functions, including the banks, custodian, and overseas pensions payment agent, as well as the granting of power of attorney where appropriate.

The report also formed a part of the Fund's scheme of delegation and set out the management and authorisation arrangements, for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction.

Resolved – That;

- 1 the arrangements set out in section 2 of the report in relation to the internal control arrangements at Merseyside Pension Fund be approved.**

2 the officers designated in section 2 of the report as authorised signatories for Merseyside Pensions Fund be approved.

61 MEMBER DEVELOPMENT PROGRAMME 2018

Members gave consideration to a report of the Director of Pensions that provided an outline of the proposed programme for member development in 2018.

It was reported that the CIPFA Pensions Panel had developed a technical knowledge and skills framework for the Local Government Pension Scheme. The framework had been adopted by Pensions Committee in 2010 as demonstrating best practice and enabled the Fund to determine that it had the appropriate mix of knowledge and skills necessary to discharge its governance requirements. It also assisted Members in planning their training and development needs.

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

When relevant, formal training sessions were included in Investment Monitoring Working Parties. 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.

Members were informed 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, members were advised that longer serving members of Pensions Committee might also benefit from refresher training. Councillor Paulette Lappin indicated that she had recently completed the Fundamentals course and could recommend it to Members. The Chair offered the Committee's congratulations to her for completing this training.

Resolved - That the proposed training and development plan for 2018 be noted and approved.

62 TREASURY MANAGEMENT STRATEGY

A report of the Director of Pensions requested that Members approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2018/19.

Donna Smith, Head of Finance and Risk informed Members that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services required Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy had last been approved by Pensions Committee on 23 January 2017.

The policy statement 2018/19 was attached as Appendix 1 to the report. It was reported that there were no significant changes to the policy followed for 2017/18.

Resolved – That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2018/19 be approved.

63 **LGC INVESTMENT SEMINAR**

A report of the Director of Pensions requested nominations for members to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Chester from 1 to 2 March 2018. The draft agenda was attached at appendix 1 to the report.

The Director of Pensions informed Members that the conference was themed “2018: Keeping the LGPS affordable and accessible through austerity and uncertain times”.

2018 would be a ground-breaking year for the LGPS. Although all the pools would be up and running and the transition of funds into the pools would have started, there was still much uncertainty over areas such as accountability and what the arrangements would be for assets held outside the pool.

It was noted that inevitably, the pooling agenda had dominated the LGPS landscape over the last few years. In 2018 it would certainly be significant, but there would also be scope to focus on investment.

The 2018 LGC Investment Seminar would bring together a line-up of expert speakers to provide the latest thinking and information on how these changes could best be implemented.

Resolved – That;

- 1 attendance at the conference by Members be approved.**
- 2 Members wishing to attend the conference notify the Director of Pensions to enable the necessary registration and administration to be undertaken.**

64 **MANAGEMENT OF CARBON RISK**

Members gave consideration to a report of the Director of Pensions which requested that Members approve the proposal to move into low carbon passive equities as part of implementing the climate risk management policy for Merseyside Pension Fund (MPF).

Appendix 1 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).

The Director of Pensions confirmed that Committee had previously approved the development of a Climate Risk Strategy for MPF, based on climate-related investment beliefs: that climate change was a systemic risk and thus, a material long-

term financial risk for investors who must meet long-term obligations. In March 2017, Members had approved the Fund's Investment Strategy Statement, containing the following pertinent investment beliefs:

- There existed an equity risk premium, namely that investors were rewarded over the longer term for making investments in equities or other risk assets;
- Environmental, social and governance (ESG) factors would materially affect investment performance over the long term
- MPF could select optimal investment strategies that integrate ESG information to drive the construction and adjustment of investment portfolios.

Members of the Committee had requested that plans be brought forward for measuring and reducing the carbon intensity of existing portfolios as part of pursuing a decarbonisation goal. The proposal contained in the report was a step toward that goal.

Councillor Pat Cleary welcomed the report and the proposals put forward and noted his thanks and congratulations to the report author, Owen Thorne, Portfolio Manager (Monitoring & Responsible Investment). He also raised a number of issues concerning the percentage of transfer to low carbon investments, the timescales involved and how this was going to be measured. The Director of Pensions responded to questions and indicated that a report would be brought to Pensions Committee in March 2018. Members commented that this was a positive step for Merseyside Pension Fund and the Chair noted that the Fund was at the forefront of LGPS funds in implementing a climate change investment policy.

Resolved – That the proposal to allocate one-third of MPF's passive equities to a low carbon index be approved.

65 UPDATE TO COMPLIANCE MANUAL

A report of the Director of Pensions sought Members approval of a revised Compliance Manual.

Appendix 1 to the report, the Revised Compliance Manual, 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).

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.

The manual was due for review every three years. The existing Compliance Manual had been approved at Pensions Committee 21 March 2017.

Donna Smith, Head of Finance and Risk informed Members that the major changes to the manual were the updates required to reflect the new operating model of Wirral Council and the changes to the structure at Merseyside Pension Fund, this included previous responsibilities that lay with the Managing Director for delivery now resting

with the Director of Pensions. Details of other changes to the manual were also provided to the Committee.

Resolved – That the revised Compliance Manual be approved.

66 **POOLING UPDATE**

Prior to consideration of this item the Chair of the Committee informed that he had, together with Councillor Brian Kenny, attended the funeral of Councillor Kieran Quinn, much respected Chair of Greater Manchester Pension Fund who had sadly passed away on Christmas Day. A new leader would be appointed in Tameside in due course. The Chair of the Committee offered the condolences of Merseyside Pension Fund to Councillor Quinn's family.

The Director of Pensions introduced his report that provided Members with an update on pooling arrangements relating to MPF and the Northern Pool.

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).

The report informed that following the update to Committee in November providing details of the progress report to DCLG as at 30 September 2017, the Northern Pool had yet to receive a response from DCLG.

The report informed that a meeting of the Northern Pool Shadow Joint Committee had taken place on 5 December 2017. The principal ongoing work streams for the Northern Pool were set out in the report and were progressing well.

The Chair of the Committee indicated that Members would continue to be updated and noted that there would be no loss of jobs or identity.

Resolved – That the report be noted.

67 **SYSTEMATIC INVESTMENT STRATEGIES**

The Director of Pensions introduced his report that provided Members with a further update on the progress made in the development of internally managed factor-based investment strategies and sought approval to commence the implementation of portfolios as detailed in the appendix. 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).

The report informed that the Fund had been exploring options to increase the proportion of its assets managed internally, consistent with its long-term investment philosophy and with due regard to risk. Since the last report in September considerable additional development work had been completed and the remit of the research extended to widen the scope of potential portfolios to include likely future fund requirements.

In addition to back testing, the Fund had been running paper portfolios for 2017. The outcomes gave the Fund confidence that it could implement and manage factor-based portfolios which would be complementary to the existing mix of internal and external portfolios.

The Director of Pensions informed the Committee that there was the need for additional resources to develop, monitor and maintain systematic investment systems. The final specification of the job role(s) had not been agreed but the full cost, including systems, was not anticipated to exceed £100,000 p.a. There were substantial cost savings from bringing assets in house. The saving on the initial portfolio would be around £600,000 p.a. and this had the potential to increase further if additional assets were brought in house.

Resolved – That;

- 1 the report be noted.**
- 2 the recommendation to increase internal resources in order to implement an internally managed factor portfolio be approved.**

68 **BOND REVIEW**

The Director of Pensions introduced a report that informed members on the annual review of potential unfunded liabilities for admission bodies. This work had been undertaken by Mercer the Fund Actuary, following the actuarial review as at 31 March 2017.

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).

In accordance with the Committee decision on 22 March 2000 (Minute 52 refers), officers had been asked to specifically monitor the potential unfunded liabilities in respect of the premature closure of admission bodies.

This work had been undertaken by the Actuary performing an annual funding review and officers considering the financial strength and covenants of the relevant organisations.

The results of the admission bodies previous liability review, as at 31 March 2015, had been considered by the Committee on 14 September 2015 (Minute 27 refers).

The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2017 were attached within the exempt appendix.

Resolved – That;

- 1 the revision of the bond requirements and guarantees, in accordance with the latest figures provided by the Actuary as at 31/3/2017 be supported.**

- 2 in the event that it was impractical and unaffordable for an employer to increase the level of bond/indemnity to the latest advised amount detailed in the exempt appendix, that Fund Officers be delegated to conduct an appropriate due diligence exercise and enter into negotiations with the employer to reach a mutually agreeable position. Any such due diligence exercise to be conducted under a consistent framework and in compliance with the Funding Strategy Statement.**

69 **CONTRACTS TIMETABLE**

A report of the Director of Pensions provided Members with details of the Fund's contracts that were due for review and/or retender and sought approval for the timetable proposed.

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).

The Director of Pensions report informed that the Fund held a number of contracts relating to the provision of pension and investment services from third parties. These were tendered regularly in accordance with the Council's Contract Procedure Rules.

In anticipation of Pooling and the uncertainty of likely future requirements, a number of imminent tenders had been put on hold until there was more clarity around Pooling arrangements. In parallel with this, the Fund had been engaging with the LGPS National Frameworks initiative and was a founder member on several of the frameworks now in place which had enabled it to shape the framework specifications to ensure they met its requirements.

With governance arrangements for the Northern Pool now taking shape, the Fund had reviewed its contracts in the light of likely future requirements and a proposed timetable was set out in the exempt appendix. It was reported that there were still areas where decisions were yet to be made by the Pool. Where necessary, transitional contractual arrangements would need to be agreed with the Council's Corporate Procurement team.

In addition, the Fund's actuary had recommended that the potential use of protection strategies be evaluated by the Fund as a strategy for managing the risk of excessive volatility of its funding position. It was important that this was undertaken and completed promptly. With the proposed increase in internally managed assets, it was also appropriate to undertake a review of the Fund's strategic asset allocation. This would assist in informing the way in which future investment mandates were specified.

The Director further informed that work that could be undertaken in house would be undertaken in house but some of the tenders would require the support of specialists in the areas involved. The costs of those specialists would be managed by use of the LGPS National Frameworks but a budget provision of £500,000 was proposed.

Resolved – That;

1 the report be noted.

2 the contract timetable and related expenditure be approved.

70 IMWP MINUTES 16/11/2017

Members gave consideration to a report of the Managing Director for Delivery that provided Members with the minutes of the Investment Monitoring Working Party held on 16 November 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 the Minutes of the IMWP meeting held on 16 November, 2017 which were attached as an exempt appendix to the report be approved.

71 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.

72 MANAGEMENT OF CARBON RISK EXEMPT APPENDIX

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

73 UPDATE TO COMPLIANCE MANUAL EXEMPT APPENDIX

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

74 POOLING UPDATE EXEMPT APPENDIX

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

75 SYSTEMATIC INVESTMENT STRATEGIES EXEMPT APPENDIX

The appendix to the report on Systematic Investment Strategies was exempt by virtue of paragraph 3.

76 BOND REVIEW EXEMPT APPENDICES

The appendix to the report on Bond Review was exempt by virtue of paragraph 3.

77 CONTRACTS TIMETABLE EXEMPT APPENDIX

The appendix to the report on Contracts Timetable was exempt by virtue of paragraph 3.

78 **IMWP EXEMPT MINUTES 16/11/2017**

The appendix to the report on IMWP Minutes 16/11/2017 was exempt by virtue of paragraph 3.