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PENSIONS COMMITTEE

Monday, 21 January 2019

Present:

Councillor	P Doughty (Chair)	
Councillors	G Davies P Cleary T Cox(dep for Cllr K Hodson) P Hackett T Jones	B Kenny C Povall I Williams

Apologies

Councillors	J Aston (Knowsley Council) J Fulham (St Helens Council) A Gardner K Hodson P Lappin (Sefton Council)
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R Bannister

45 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 Tony Jones 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 being a member of Merseyside Pension Fund.

46 MINUTES

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 29 October, 2018 be agreed.

47 NORTHERN POOL DRAFT RESPONSIBLE INVESTMENT POLICY

The Director of Pensions informed the Committee that the presentation for this item would not take place at this meeting. This would form the subject of the Responsible Investment Event at Aintree scheduled for Wednesday 23 January, 2019.

A report of the Director of Pensions provided Members with an update on the Scheme Advisory Board's key projects relating to the governance and administration of the Local Government Pension Scheme; specifically national initiatives to deal with inconsistencies across the Scheme for academies, the risks associated with Third-Tier employers and the conflicting interests at local authority employers who undertook the administering authority function.

The report also covered the policy consultation issued by the Ministry of Housing, Communities & Local Government on 'Technical Amendments to Benefits' and Merseyside Pension Fund's response.

Yvonne Caddock, (Head of Pensions Administration) informed Members that Fund Officers sought comments and approval from the Chairs of both the Pension Committee and Pension Board on the policy perspective, before the consultation response was submitted by the prescribed deadline of 29 November 2019.

The Head of Pensions Administration outlined the National Initiatives and Associated Scheme Advisory Board Activity and explained that the Scheme Advisory Board (SAB) was coordinating a number of projects to resolve issues that had arisen within the LGPS, relating to; the inconsistent treatment of Academies across Funds and the affordability constraints of Third-Tier Employers. In addition, further research was being undertaken to consider the dual role and conflicts of interest for a local authority employer undertaking the Scheme Manager function.

With regard to Consultation on 'Technical Amendments to Benefits' the Head of Pension Administration highlighted that the main change related to survivors' benefits of same-sex marriages or civil partners, with the objective to equalise benefits to those of an opposite sex surviving spouse. Surviving partners in a civil partnership or same sex marriage of either sex were all currently afforded benefits equivalent to widowers.

Members were informed that the Government had decided that all public service pension schemes should implement changes to ensure that survivors of a registered civil partnership or same-sex marriage were provided with benefits that replicated those provided to widows.

It was noted that this change would be significant as post-retirement marriage was based on service from 1978 for widows but only from 1988 for widowers.

The Fund had responded to the consultation on 28 November 2018, supporting the equalisation of survivor benefits but had raised concern that the proposals did not extend to cover survivor pensions for opposite sex marriages or cohabitating partners. The response was attached as an appendix to the report.

The Committee were informed that as the changes to Survivor pensions would apply from the date civil partnerships and same-sex marriages were implemented; this would result in the need for Pension Funds to revisit all awards made under the current rules to those members affected and pay any additional sums due.

As it had been estimated that the cost to extend the improvement in survivors' pensions to survivors of opposite sex marriages and cohabitating partners amounted

to £2.8 billion across the public sector; there was no intent to take the provision forward at this time. The Head of Pensions Administration also informed that HMT and DWP were currently in consultation on this issue.

Resolved - That;

- a) **the developments of the Scheme Advisory Board's projects and**
- b) **the response sent to MHCLG regarding the policy consultation issued in October be noted.**

49 **PENSION FUND BUDGET**

Members gave consideration to a report of the Director of Pensions that requested that Members approve the budget for the financial year 2019/20.

The budget for 2019/20 was attached as appendix 1 to the report.

Donna Smith, Head of Finance & Risk, informed the Committee that the headline figures showed that during the financial year 2019/20, it was estimated that MPF would pay £332m in pensions and receive £213m in contributions from employers and employees. The Fund had a value of £8.9bn at 30 September 2018. The proposed administration costs of £22.0m including £14.0m of investment management charges to external managers represented a cost of £160.65 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs were approximately £102.15 per member or 0.16% of assets under management.

The report informed that the budget for 2019/20 at £22.0m was higher than the projected outturn for 2018/19, but in line with the £22.0m set in 2018/19 primarily due to a number of projects and areas of spend being deferred and carried forward to the next financial year.

It was highlighted that the report included a predicted out-turn for 2018/19. Due to the volatility in financial markets and delays in billing from certain third party suppliers it was not possible to predict the outturn with complete accuracy. Therefore, some estimates had been used, and it was proposed to report on the actual outturn at the July meeting of Pensions Committee. At present, the outturn was lower than predicted largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.

Members were informed that the Fund's major expenditure was on investment management fees. These were mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This meant that when the Fund's investments rose in value and/or outperform benchmarks, the fees could rise substantially. Accordingly, when this expenditure rose there was a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2017/18 the outturn was expected to be lower than the estimate made last year due to market volatility.

The report noted that the second highest expenditure was on staffing. The outturn for 2018/19 would be underspent due to assumptions used and vacancies. In the light of the new pooling guidance, a further review of staffing requirements would be undertaken and any material changes would be reported to a subsequent meeting of this Committee.

Resolved – That;

- 1 (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery) the budget for 2019/20 be approved.**
- 2 a further report on the outturn for 2018/19 with finalised estimates in particular for salary overheads and departmental & central support charges for 2019/20 be presented to Pensions Committee Members in July.**
- 3 the officers be congratulated for the work that has been done.**

50 MEMBER DEVELOPMENT PROGRAMME

The Director of Pensions introduced a report that provided Members with an outline of the proposed programme for member development in 2019. An outline training programme was attached as an appendix to the report and the Director of Pensions noted a correction in the heading from 2018 to 2019. He further indicated that full details of the event would be brought to future meetings of the Pensions Committee.

Resolved - That the proposed training and development plan for 2019 be noted and approved.

51 TREASURY MANAGEMENT STRATEGY

Members gave consideration to a report of the Director of Pensions that 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 2019/20.

Donna Smith, Head of Finance, introduced the report and responded to Members questions. It was reported 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 the Pensions Committee on 22 January 2018.

The report noted that the Fund's cash flows for dealings with members had moved negative with outflows to pensioners more than income from contributions. In an environment where a significant proportion of investment income was directly re-invested, the levels of liquid resources held needed to be adequate and daily cashflows and regular reporting was essential.

The Treasury Management Policy Statement 2019/20 was attached as Appendix 1 to the report. It was reported that there were no significant changes to the policy followed for 2018/19.

Resolved - That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2019/20 be approved.

52 UPDATE ON INVESTMENT STRATEGY

The Director of Pensions introduced a report that presented to Members a report commissioned as part of the Merseyside Pension Fund's investment strategy review process. The report examined the Fund's beliefs in regards to sustainable or responsible investing.

Appendices to the report contained Future Proofing the Investment Strategy, MPF/Sustineri 2018, the MPF Responsible Investment: Statement of Beliefs and a Letter from Sefton Council informing Committee of a Council Motion in relation to disinvestment from fossil fuel companies.

The Chair informed the Committee that representatives of MPF including the Director of Pensions, Councillor Pat Cleary, Owen Thorne, Portfolio Manager and himself had recently attended a launch opening at the Stock Exchange and had been presented with a glass memento of the occasion. He commented that Members could be very proud of MPF taking the lead at his event.

Resolved – That;

- 1 the report by Sustineri and its recommendations be noted.**
- 2 the Fund's Statement of RI Beliefs be endorsed.**
- 3 a reply to the motion from Sefton Council be prepared by the Director of Pensions in conjunction with Cllr Cleary and agreed by the Chair of Pensions.**
- 4 the officers of MPF, in particular Owen Thorne, Portfolio Manager, be congratulated on their work.**

53 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 28 February to 1 March 2019.

The Director of Pensions informed Members that the conference would themed "2019: Capitalising on the LGPS' strong financial position, despite the uncertain economic climate". The Seminar would provide practical advice from pools and funds, insight on what's new in investment and greater opportunities to sense-check priorities.

Resolved – That;

- 1 attendance at the (LGC) Investment Conference by Members be approved.
- 2 an invitation be circulated and Members wishing to attend the conference notify the Director of Pensions to enable the necessary registration and administration to be undertaken.

54 PENSION BOARD MINUTES

A report of the Director of Pensions provided members with the minutes of the previous meeting of the Local Pensions Board held on 16 October, 2018.

Resolved – That the minutes of the Local Pension Board held on 16 October, 2018 be noted.

55 POOLING UPDATE

A report of the Director of Pensions provided Members with details of a consultation issued by the Ministry of Housing, Communities and Local Government (MHCLG) on new statutory guidance on LGPS asset pooling. The draft guidance on asset pooling was attached as Appendix 1 to the report.

Members were informed that on 3 January 2019, MHCLG had issued draft statutory guidance on LGPS asset pooling. This set out the requirements on administering authorities, replacing previous guidance, and built on previous Ministerial communications and guidance on investment strategies. This would be an informal consultation with interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS. The consultation would remain open for 12 weeks and will close on 28 March 2019.

The report informed that the guidance set out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and took account of the current state of progress on pooling. It had been made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities were required to act in accordance with it.

The Director of Pensions informed members of the Committee that a report providing further analysis of the proposals and a draft response would be brought to Committee in March. If adopted as drafted, the most significant implication for the Northern Pool would be the requirement, as set out in section 3, to establish a pool company for the majority of assets which ‘must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities’.

Resolved – That the report be noted.

56 CONTRACTUAL ARRANGEMENTS

The Director of Pensions introduced a report that provided Members with details of the Fund's contracts which were due for review and/or retender and sought approval for the actions 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 report provided members with an update to the report brought to the Pensions Committee in January 2018. 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.

Members were apprised of a number of procurement exercises undertaken by the Fund Since the last report. A progress report on the investment strategy review was a separate item on this agenda. The strategy review had taken longer than anticipated and this had influenced the timing of some of the anticipated contract reviews. Another consideration had been the development of pooling arrangements by the Northern Pool which remains ongoing. Once concluded, the new investment strategy would inform the review and retender of the contracts and services that remained outstanding, subject to pooling arrangements being finalised. A revised schedule is set out in the exempt appendix. The Director of Pensions informed that where necessary, transitional contractual arrangements would need to be put in place in conjunction with the Council's Corporate Procurement team.

Resolved – That the report be noted and the contract timetable and related expenditure set out in the exempt appendix to the report be approved.

57 LIABILITY RISK MANAGEMENT

The Director of Pensions introduced a report that informed Members of the appointment of investment managers providing equity downside protection strategies to a framework agreement and implementation of a bespoke investment strategy in relation to a substantial employing body in the Fund.

The appendices 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).

Members were reminded that officers had been actively developing risk reduction strategies for the Fund. As advised to this Committee in January 2018, one area of interest had been the potential use of equity option strategies and, following an in-depth review of these strategies, a framework of investment managers able to implement these strategies has been put in place. The firms appointed were listed in exempt appendix 1 to this report.

The report noted that additionally, following the 2016 actuarial valuation, the Fund had introduced two additional investment strategies (medium risk and lower risk) to

give employers the option of reducing the level of investment risk they wished to take.

Members were informed that the Fund had been approached by an admitted body in the Scheme with a request to provide them with a lower risk strategy which would include explicit hedging of their liabilities' sensitivities to inflation and interest rate risk. Following detailed negotiations involving the Fund's actuary, officers and KPMG, advisors to the admitted body, a bespoke strategy had been agreed and designed to fulfil the requirements. The parameters of the strategy proposed by the employer were set out in exempt appendix 2.

Resolved – That the report be noted.

58 WORKING PARTY MINUTES

A report of the Director of Pensions provided Members with the minutes of meetings of Working Parties held since the last meeting.

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).

Resolved – That the minutes attached as an exempt appendix to the report be approved.

59 EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

60 CONTRACTUAL ARRANGEMENTS

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

61 LIABILITY RISK MANAGEMENT

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

62 WORKING PARTY MINUTES

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