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PENSIONS COMMITTEE

Monday, 3 February 2020

Present:	Councillor	P Cleary (Chair)	
	Councillors	C Carubia G Davies T Jones B Kenny	C Povall G Watt S Whittingham
	Councillor	P Lappin, Sefton Council	
		R Bannister, Unison retired member representative	
Apologies	Councillor	A Gardner	

51 **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.

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 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 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.

52 **MINUTES**

Resolved – That the accuracy of the minutes of the meeting held on 4 November, 2019 be agreed.

53 **PENSION BOARD REVIEW**

The Independent Chair of the Pension Board, Mr John Raisin, introduced his report which 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 fourth year (1 April 2018 to 31 March 2019). The report also included a Work Plan for 2019-20. Both the report and Work Plan had been approved by the Pension Board at its meeting on 12 November 2019.

The report outlined the Purpose and Constitution of the Merseyside Local Pension Board and set out the revised terms of reference of the Board. Mr Raisin noted that under the revised Terms of Reference the Board would continue to consist of nine members, constituted of four Employer representatives, four Scheme member representatives and an independent, non-voting Chair who had responsibility for the co-ordination and operation of the Board. It was also noted that the Board would now meet at least four times in each year between 1 April and the (following) 31 March. This arrangement would enable the Board to more effectively discharge its duties and responsibilities given the increasingly complex environment of both regulatory requirements/guidance/governance and LGPS operations, together with the ongoing increasing expectations of the MHCLG, the Scheme Advisory Board and the Pensions Regulator.

The report provided information relating to Board Meetings held in 2018/2019 and gave details of the attendance and focus of Board meetings. The Independent Chair also outlined the proposed Pension Board Work Plan 2019 – 2020 and indicated that, from discussions with both the Director of Pensions and the Head of Pensions Administration, it was clear that the Merseyside Pension Fund positively utilised and valued the Pension Board and saw it as a body that could genuinely assist the Pensions Committee and Officers in the Governance and operation of Merseyside Pension Fund. Mr Raisin referred to the positive working relationship both he and Board members had enjoyed with Councillor Paul Doughty, former Chair of the Pensions Committee who had stood down as Chair of the Committee and as a ward Councillor in May 2019, and recorded his positive approach to the Pension board. The Independent Chair also placed on record his appreciation of the support that he and fellow Board members had received from officers of the Pension Fund which had enabled the Board to positively assist officers in governance.

The Chair of the Pensions Committee noted the Committee's appreciation of the work of the Independent Chair and Board members and thanked Mr Raisin for an interesting and informative report.

Resolved – That the report be noted.

54 **LGPS UPDATE**

Yvonne Murphy, Head of Pensions Administration, presented a report that 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, the report 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.

Yvonne Murphy reminded members that at the meeting of the Pensions Committee on 4 November 2019 (minute 37 refers) Members 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 further information 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 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.

Resolved – That the report be noted.

55 **ACTUARIAL VALUATION**

A report of the Director of Pensions informed Members that the Actuary had completed the calculations for the 2019 actuarial valuation based on membership and cashflow data provided by the Fund as at 31 March 2019.

The Head of Pension Administration informed members 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) 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.

56 **FUNDING STRATEGY STATEMENT**

Members gave consideration to a report of the Director of Pensions that informed the Committee of the Funding Strategy Statement. The LGPS Regulations required each administering authority to prepare and publish a Funding Strategy Statement

(FSS). The final proposed Funding Strategy Statement was attached as Appendix 1 to the report and incorporated the proposals on the funding strategy. Members were informed that there would be minor drafting changes between now and the statutory deadline of 31 March 2020.

A draft FSS had been sent out to employers as part of the consultation process during November 2019 and feedback had been requested. In order to assist employers with the consultation, the Fund Actuary had communicated the key FSS changes at employer meetings in November.

A number of comments had been received from employers following the consultation, and the FSS had been updated to reflect the comments made, particularly in relation to the policy on the prepayment of contributions. A summary of the comments and changes made were set out within the report.

Members were informed that the principal decision areas for the Committee were:

- The actuarial assumptions, deficit recovery plans and updated policies;
- Allowance in the FSS for the McCloud judgment; impact plus commentary on the considerations around the Cost Management Process in light of the judgment;
- The amendments regarding the policy on prepayment of employer contributions for employers and the operation of the policy.

The Pensions Committee were requested by the Fund Officers to delegate the refinement and finalisation of the FSS before the deadline of 31 March 2020.

Resolved – That;

1 the draft Funding Strategy Statement be approved.

2 the refinement and finalisation of the draft FSS by 31 March 2020 be delegated to the Director of Pensions.

57 **REVISED INVESTMENT STRATEGY**

A report of the Director of Pensions informed Members of proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation. The report sought approval for the revised Investment Strategy and the draft Investment Strategy Statement which had been revised in conjunction with the Funding Strategy, the subject of a separate report on the agenda. The Revised Investment Strategy Statement was attached as an appendix to the report.

The Director of Pensions apprised the Committee of the Statutory background to the Investment Strategy and outlined the Investment Strategy report.

The report informed the Committee that in conjunction with the Actuarial Valuation and Funding Strategy Statement investment strategy was reviewed with the Fund's advisors to ensure that the Fund's asset allocation would deliver investment returns over the long term to secure the long-term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities whilst taking an appropriate level of risk.

Members were informed that MPF's overall funding position had improved significantly from 84.6% at March 2016 to 102% at March 2019 – although funding levels would vary from employer to employer. Following extensive consultation with the actuary, the investment consultant, independent advisors and employers, it was proposed to 'lock in' some of the gains achieved and, over the next two to three years, reposition the portfolio towards an investment strategy providing greater capital stability. In general terms, less risky assets provided lower returns and, therefore, would reduce the actuary's assumptions of future asset growth thereby increasing the cost of the Scheme. In revising the strategic asset allocation, officers had sought to strike a balance between risk reduction and affordability. The broad asset allocations in the ISS had been agreed but there were likely to be some minor adjustments to the underlying geographical regional weightings as officers finalise benchmarks. These would not affect the overall modelled returns.

The report also informed Members that as a further measure the Fund put in place equity downside protection strategies and the intention was that, subject to funding level and market conditions, these would be extended as they reached maturity. The ISS had also been revised to reflect the medium and lower risk asset strategies available to employers

The director of Pensions also highlighted that, consistent with pooling guidance and MPF's objectives to deliver improved performance and cost savings, the Fund continued to seek opportunities to increase the proportion of assets managed by the internal investment team. Following the implementation of an internally managed global factor portfolio in March 2019, it was intended that further internally managed equity portfolios would be put in place as appropriate.

Resolved – That;

1 the revised investment strategy, the revised Investment Strategy Statement be approved and the Director of Pensions be authorised to finalise the underlying regional and sub-asset weightings.

2 the extension by the Director of Pensions of equity downside protection strategies consistent with the Fund's investment strategy be noted and approved.

58 **TREASURY MANAGEMENT POLICY**

Members gave consideration to a report of the Director of Pensions that requested Members to approve the treasury management policy statement and the treasury management practices and annual plan for Merseyside Pension Fund (MPF) for the year 2020/21.

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 the Pensions Committee on 21 January 2019.

It was reported that the Fund's cash flows for dealings with members had moved negative with outflows to pensioners more than income from contributions and with the 2019 triennial valuation improved results, this would reduce contribution income further. Members were informed that 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 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.

Resolved – That the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2020/21 be approved.

59 **PENSION FUND BUDGET**

Members gave consideration to a report of the Director of Pensions that requested Members approval of the budget for the financial year 2020/21. The budget for 2020/2021 was attached as an appendix to the report.

Donna Smith, Head of Finance and Risk reported that the headline figures were that, during the financial year 2020/21, it was estimated that MPF would pay £359m in pensions and receive £400m in contributions from employers and employees. The Fund had a value of £9.4bn at 30 September 2019. The proposed administration costs of £23.0m including £14.9m of investment management charges to external managers represented a cost of £166.33 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs were approximately £107.58 per member or 0.16% of assets under management.

The report set out that the budget for 2020/21 was higher at £23.0m than £22.3 in 2019/20 primarily due to higher investment management fees.

It was reported that over the medium term the Fund was undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments. The Head of Finance and Risk responded to questions from Members and it was;

Resolved – That;

1 subject to review of charges from the administering authority for support services that the budget for 2020/21 be approved.

2 a further report on the outturn for 2019/20 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2020/21 be presented to Pensions Committee Members in July.

60 **MEMBER DEVELOPMENT PROGRAMME**

A report of the Director of Pensions provided Members with an outline of the proposed programme for member development in 2020.

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 appendix 1 to the report. It comprised of a series of internal and external training events throughout the year. Individual papers would be brought to consider and approve attendance at each event and, as and when 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.

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 took place over three days (during October – December), at multiple dates and in multiple locations (Cardiff, Leeds & London). It was noted that while considered essential for new members, longer serving members of Pensions Committee may also benefit from refresher training.

It was a statutory requirement that the Fund's annual report includes detailed information on training events offered and attended by elected members. A register of Members' attendance at training and development events was kept and reviewed annually by the Governance & Risk Working Party.

Appendix 2 of the report contained information on two forthcoming training and development opportunities.

Resolved – That

1 the proposed training and development plan for 2020 be noted and approved.

2 those Members wishing to attend the conference(s) in appendix 2 contact the Director of Pensions.

61 **GOOD GOVERNANCE PROJECT**

Yvonne Murphy, Head of Pensions Administration introduced a report that provided 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. This latest report had been prepared by the two working groups formed following phase one of the project and built on the findings from the initial Good Governance report published in July 2019.

Good Governance Phase II contained detailed proposals for the changes required to implement the governance framework. It had also called for statutory guidance to set out the standards that LGPS funds were expected to meet with regard to compliance with governance responsibilities and the appropriate level of external oversight to improve accountability.

The report set out that strong governance of the LGPS had always been paramount, but due to the collapse of several private sector funds, alongside pressures to maintain balanced funds the need to maintain this 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 democratic accountability.

Members had been informed at the Committee meeting dated 4 November 2019 (minute 37 refers) that following the publication of the initial 'Good Governance Report' at the end of July, SAB would continue to progress the work to improve governance within the LGPS.

Two stakeholder working groups, supported by Hymans Robertson, had been established to develop the initial findings, capture existing best practice across funds and set consistent standards to build on the project's earlier proposals to strengthen the governance and administration of the LGPS.

The Phase II report had been published on 15 November 2019 and detailed the proposed outcomes from the workstreams, along with a summary of 17 recommendations necessary to implement an improved governance framework. The report could be accessed from the following link:

https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/

The Head of Pensions Administration outlined the key recommendations and informed Members that the new governance requirements would require the Fund to appoint an officer dedicated to governance to effectively coordinate the implementation of the proposals and review governance policies to ensure continued compliance as part of the biennial governance review and increasing scrutiny from tPR, SAB and the Local Pension Board activities.

The costs of implementing the recommendation from SAB's governance review of the LGPS would be met from the Pension Fund as part of its obligation to meet statutory legislation and guidance.

Resolved – That

1 the report and the recommendations within the 'Good Governance Phase II' report with regard to the effectiveness of the Local Government Pension Scheme Governance Arrangements be noted.

2 the requirement for the Fund to increase officer resources in the area of governance management be noted.

62 **PENSION BOARD MINUTES**

Members gave consideration to a report of the Director of Pensions that provided members with the minutes of the previous meeting of the Local Pension Board held on 12 November 2019 attached as appendix 1 to the report.

Resolved – That the minutes of the Local Pension Board held on 12 November 2019 be noted.

63 **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.

Appendix 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 minutes be approved.

64 **PROPERTY ARREARS**

Members gave consideration to a report of the Director of Pensions that requested that Members agree to the write off of £61,310.98 of unrecoverable rent arrears from the Fund's property portfolio. The annual property rental income for 2018/19 was £30.5 million.

Appendix 1 to the report, (a report from CBRE detailing property rent arrears), 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).

Resolved – That the write-off of uncollectable property rental income of £61, 310.98 be approved.

65 **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.

66 **WORKING PARTY MINUTES**

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

67 **PROPERTY ARREARS**

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

68 **INTERNAL MANAGEMENT**

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

Resolved – That the recommendation of the Director of Pensions, as set out in the exempt report, be approved.

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