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LOCAL PENSIONS BOARD

Monday, 14 September 2020

Present: J Raisin (Chair)

G Broadhead
D Ridland
R Irvine
P Maloney
L Robinson
S Van Arendsen

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 PAUL WIGGINS

The Independent Chair paid tribute to Paul Wiggins, Unison retired member representative, who had sadly died in June 2020. He said that Paul had been exemplary in his approach as a member of the Local Pensions Board and as an individual and would be greatly missed. Members of the Board made their own tributes and on the suggestion of the Chair it was agreed that members would pay their respects by holding two minutes silence once the Board was able to meet again in person.

3 MINUTES

Resolved – That the accuracy of the minutes of the Local Pension Board held on 5 February 2020 be approved as a correct record.

4 LOCAL PENSIONS BOARD BRIEFING 8 JUNE 2020

The Chair noted that a briefing of the Local Pensions Board had been held virtually on 8 June 2020. The meeting had been Chaired by the Director of Pensions and although an informal meeting had been conducted in the same way as a formal Board meeting and took account of the recommendation of the Pension Regulator for the Board to meet regularly to discharge its duties and responsibilities effectively, but not less than four times in any year. The Briefing had also provided a verbal update on how the Pension Fund was operating in the current pandemic situation.

5 LGPS UPDATE

Yvonne Murphy, Head of Pension Administration, provided members with an update that covered the long-awaited Government response to the consultation on restricting exit payments in the public sector and the publication of the draft Restriction of Public Sector Exit Payments Regulations 2020 issued on 22 July 2020.

The report also raised awareness of the Written Ministerial statement on survivor benefits payable from public service pensions in response to an Employment Tribunal relating to the Teachers' Pension Scheme. The case concerned the lower survivor benefits paid to a widower of a female scheme member compared to those paid to a same sex survivor or a widow of a male scheme member.

The Head of Pensions Administration provided details of the background and key issues in the report and noted that HMT had published its response to the consultation issued last year, seeking to cap public sector exit payments at a value of £95,000, along with the draft regulations; The Restriction of Public Sector Exit Payments Regulations 2020. This could be found on the following link:

<https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector>

It was noted that the regulations would affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirements and included a list of employers who will be covered by the cap.

The Head of Pension Administration also highlighted the key points in the response and responded to members' questions.

In relation to survivor benefits for opposite sex widowers pensions it was reported that on 20 July, HMT had issued a statement confirming that, following a successful case against the Teachers' Pension Scheme (TPS), known as the "Godwin Case" historical widowers' pensions in the public sector pension schemes discriminated against male members. Details could be viewed on the following link;

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-07-20/HCWS397/>

Members were informed that Departments responsible for the administration of affected schemes would consult on and take forward changes as soon as possible. For the LGPS this would affect surviving widowers where their deceased spouse left prior to April 1998. In some cases, this would lead to an increase in the widower's pension in payment. In other cases (where the member left prior to April 1988) this would lead to a new widower record needing to be set up, as previously there was no widower's pension entitlement.

Members were informed that the need to re-visit hundreds, perhaps thousands of historical deferred and pensioner records in relation to the restatement of survivor pension entitlements would only add to the governance and administration burden Funds were facing on the back of the proposed McCloud remedy and the implementation of the exit cap.

The Head of Pension Administration provided an outline of the impacts and considerations as the government were expecting employment contracts, compensation schemes, and pension schemes to be changed to accommodate the £95k exit cap. More details were expected to emerge about updated guidance and HMT Directions. Both Funds and employers would need to ensure they were making plans to prepare for the implementation as the detail emerges.

The Chair noted that individuals could also respond to the Exit Cap consultation which would close on 9 November 2020 and encouraged them to do so.

Resolved - That the report be noted.

6 PROPOSED MCCLOUD JUDGMENT REMEDY AND LGPS CONSULTATION

The Head of Pension Administration provided a report that updated the Board on the much-anticipated consultation on the McCloud remedy for the LGPS in England and Wales, a 12-week consultation covering extensive detail on how the remedy would be applied, that had been released by MHCLG on 16 July 2020. The Fund's officers would be responding to the consultation as part of planning for the implementation of the remedy. Separately the Government had announced that the 2016 Cost Cap HMT assessment for all public sector schemes would be unpaused and critically that the McCloud remedy was to be included in the assessment of the impact on member benefits.

Members were informed that a contribution rate assessment for the McCloud remedy was calculated at the 2019 valuation for Merseyside Fund employers and the calculations were generally done in line with the proposed underpin in

the consultation. Some employers made a provision in their contribution rates and the Fund would not expect to revisit this allowance until the next valuation. For other employers, the Funding Strategy Statement allowed this to be revisited where appropriate once the remedy was finalised.

The Head of Pensions Administration provided details on the background and key features of the changes and a summary of the remedy proposals set out in the report. Members questions on the impact of the remedy were responded to and the Board was informed that the Fund would be preparing a response to the consultation by the closing date of 8 Oct 2020.

Resolved –That the Pension Board affirm its support for the approach proposed by officers to develop the project plan for implementation and for use as a basis for responding to the consultation.

7 **INVESTMENT PERFORMANCE 2019-20**

The Director of Pensions presented a report that set out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2020.

The report set out investment performance and provided a commentary on the markets, the impact of the Covid-19 pandemic and the response of governments and monetary authorities across the globe. It was reported that on 15 April 2019, the Fund had implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark.

Members commented that the performance of the Fund's investment strategy was a lot better than might be expected and commended the Fund's Investment Team.

Resolved – That the report be noted.

8 **RPI CONSULTATION RESPONSE**

A report of the Director of Pensions informed members of the government's consultation on reform of the Retail Prices Index (RPI index) and the Fund's response was attached as an appendix to the report.

Members were informed that the government had announced that it was launching a consultation on changes to the RPI index. The consultation could be viewed on the following link:

<https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology>

The report provided the background to the introduction of the RPI, the CPI and CPIH and noted that since 2010, the measured rate of RPI annual inflation had been on average one percentage point per annum above the CPIH.

There has been an exchange of letters between the UK Statistics Agency (UKSA) and the Chancellor on RPI. A letter from the UKSA to the Chancellor in March 2019 had made two recommendations:

- The publication of RPI should cease or
- The publication of RPI should effectively change to CPIH

The Chancellor had rejected the proposal to cease the publication of RPI by the UKSA but, regarding the potential change to the calculation methodology of RPI, February 2025 had been set as the earliest date that a change could occur.

A consultation had been announced aimed at gathering information about the potential impact of any change, whether the change should be made before 2030 and, if so, when between 2025 and 2030 the change should occur.

Members were informed that, as set out in the Fund's response, the Fund had substantial investments in assets with RPI linked cash flows and any uncompensated change to the calculation of RPI would have a detrimental effect on the value of those assets.

Resolved – That the report and the Fund's response to the consultation be noted.

9 REVISED TERMS OF REFERENCE

The Head of Pensions Administration presented the revised Terms of Reference for the Local Pension Board which were attached as an appendix to the report.

The report informed the Pension Board of proposed revisions to its Terms of Reference (ToR) following the recent statement from the Scheme Advisory Board (SAB) on the position of local pension board meetings during the COVID-19 emergency. SAB had sought legal advice and now recommended that the ToR should be amended to provide for virtual meetings where it was not possible or practical for Boards to meet in person.

It was reported that the Pension Board had operated effectively since July 2015 with the last revisions to the ToR's approved by full Council for adoption into the Council's constitution on 9 December 2019. The report highlighted that during the current pandemic and national emergency measures it was essential that the Pension Board find ways of exercising their statutory

functions and it was clear that arranging virtual meetings satisfied the requirement of Regulation 106 (8) of the LGPS Regs 2013, which permitted the Board to undertake actions to facilitate the discharge of its functions.

In consideration of SAB's directive and the changing operating environment of statutory and regulatory committees, section two of the ToR had been expanded to include paragraph 2.4 & 2.5 which permitted virtual meetings using video and telephone conferencing technology and define the terms of attendance. A new section 5, Virtual meetings, had also been drafted which set out the operational practicalities, etiquette, voting procedure and troubleshooting in the event of failure of the remote participation facility.

Resolved – That;

- 1 the draft ToR, having been reviewed by the Pension Board and subject to the removal of paragraph 5.1 relating to the length of meetings, be approved to ensure it continues to exercise its statutory function in circumstances where a virtual event is necessary due to emergency measures imposed by national or local government departments.**
- 2 virtual or hybrid meetings of the Local Pension Board take place only with the approval of the Director of Pensions in consultation with the Independent Chair.**

10 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.

11 BUSINESS PLAN

Members gave consideration to a report that provided Board members with a copy of the Fund's Business Plan.

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.

12 **RISK REGISTER**

Members gave consideration to a report that provided Board members with a copy of the Fund's Risk Register

Appendix 1 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.

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 **INTERNAL AUDIT ANNUAL REVIEW 2019/20**

Mark Niblock, Chief Internal Auditor, attended the meeting and presented the Internal Audit Annual Review 2019/20. It was reported that on the basis of the work undertaken during the year, the Internal Audit Service was able to provide significant assurance on the adequacy and effectiveness of the MPF internal control environment. This conclusion would feed into the Chief Internal Auditor's Annual Report for 2019/20 and Opinion on the System of Internal Control for Wirral Council, to be presented to the Audit & Risk Management Committee in November 2020.

Resolved – That the report be noted.

15 **DRAFT PENSION BOARD ANNUAL REPORT**

Members gave consideration to a report which had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the work and performance of the Board and its Members during its fifth year (1 April 2019 to 31 March 2020). The report also included a proposed Work Plan for 2020-21.

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.

Under Section 11.3 of its present Terms of Reference (approved by the Wirral Council at its meeting held on 9 December 2019) the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which is the Wirral MBC Pensions Committee. This review had been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 14 September 2020. 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 on 2 November 2020.

The Chair noted his appreciation of the positive approach and support that both he and fellow Board members had received from the Director of Pensions and officers during his time as Chair of the Pensions Board and thanked the officers for their positive approach and their reports, guidance and advice. He also referred to the continued high calibre of members of the Board and thanked all members individually. The Chair also acknowledged the positive working relationship both he and Board members had the benefit of with the new Chair and members of the Pensions Committee.

Going forward the Chair noted that two issues in particular would be of critical importance to the LGPS at an individual Fund level across England and Wales. These were the successful implementation of the recommendations of the "Good Governance in the LGPS" project and the implementation of the remedy to the age discrimination (commonly referred to as the "McCloud" case) in the current LGPS benefit arrangements. These would inevitably require additional resourcing even by a Fund such as Merseyside which, based on the reporting to and constructive challenge by this Board since 2015, regularly reviews requirements, risks and consequently resourcing. The Pension Board therefore looked forward to updates as to how these issues were being actively addressed.

Resolved – That;

- 1 the Pension Board Review 2019-20 be received and approved.**
- 2 the proposed Work Plan 2020-21 be approved.**

16 NATIONAL KNOWLEDGE ASSESSMENT

The Director of Pensions presented a report on the National Knowledge Assessment's. The key goal of the Assessment had been to provide LGPS funds with an insight to the pensions specific knowledge and understanding of those holding decision making and oversight responsibility within their organisations. The Director of Pensions thanked members of the Board for their participation and noted that the report would be considered at the next meeting of the Pensions Committee and would inform on training needs for the Board and Pensions Committee members.

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.

Resolved - That the report be noted and members continue to work with officers to identify and undertake training and development opportunities appropriate to their needs.

17 **BUSINESS PLAN EX APPENDIX**

The appendix to the report on the Business Plan contained exempt information by virtue of paragraph(s) 3.

18 **ADMINISTRATION KPI REPORT**

Members gave consideration to a report of the Head of Pensions Administration that provided Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 April 2020 to 30 June 2020.

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.

Resolved – That the report be noted.

19 **RISK REGISTER EXEMPT APPENDIX**

Appendix 1 to the report contained exempt information by virtue of paragraph 3.

20 **WORKING PARTY EXEMPT MINUTES**

The appendix to the report contained exempt information by virtue of paragraph 3.

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