

LOCAL PENSIONS BOARD

Wednesday, 31 March 2021

<u>Present:</u>	J Raisin (Chair)	
	G Broadhead	R Irvine
	P Fieldsend	P Maloney
	D Ridland	L Robinson
<u>In attendance:</u>	Councillor P Cleary	Chair, Pensions Committee
<u>Apologies</u>	J Simmonds	CEM Benchmarking
	S Van Arendsen	

38 WELCOME AND INTRODUCTION

The Chair welcomed Members of the Local Pensions Board and Officers to the online, virtual meeting.

39 APOLOGIES

Apologies had been received from Mr S Van Arendsen.

40 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.

41 MINUTES

Resolved – That the accuracy of the minutes of the Local Pension Board held on 10 November 2020 be approved as a correct record.

42 LGPS UPDATE

The Head of Pensions Administration, Yvonne Murphy, introduced a report that provided Members with copies of the reports on developments in the LGPS that had been taken to Pensions Committee since the previous Board meeting.

The report updated Members on the Treasury announcement of 12 February, to issue a direction to disapply the 'Restriction of Public Sector Exit Payments Regulations 2020 (£95k cap) with immediate effect. Subsequently, on 25 February the Treasury had formally revoked the regulations with effect from 19 March 2021.

In addition, the report raised awareness of the publication of the final report from the Scheme Advisory Board on the Good Governance review and overriding legislation that would impact on the administration of the LGPS.

Further to updates provided at the last committee meeting on the £95k Exit Cap, HM Treasury (HMT) had published the Exit Payment Cap Directions 2021, on 12 February, accessible from the following link:

<https://www.gov.uk/government/publications/guidance-on-public-sector-exit-payments/mandatory-hm-treasury-directions>

The Directions had disapplied regulations 3, 9 and 12 of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect on the basis that the Government had concluded that the Cap may have had unintended consequences. This meant the exit cap did not apply to exits that took place on or after 12 February 2021.

HMT had also issued guidance which set out their expectation that employers who had capped exit payments since 4 November 2020 should revisit those cases and pay the additional sums that would have been payable had the cap not applied.

The Head of Pension Administration also highlighted that on 11 February, HMT had launched a consultation on the implementation of increasing the minimum pension age from 55 to 57 in April 2028. This was the age at which individuals could access their pension benefits without incurring an unauthorised tax charge.

Government had previously signalled its commitment to increase the minimum pension age to 57 in 2028 in its response to the Freedom and Choice in Pensions consultation in July 2014. The Government's justification was to reflect increases to life expectancy since the minimum pension age was last increased from 50 to 55 in 2010, so that tax efficient pension savings were only used to provide income and security in later life.

The consultation confirmed that the proposals did not apply to those who were members of the firefighters, police and armed forces public service pension schemes. The consultation would close on 22 April 2021 and MPF would provide a response to this consultation which would be shared with the Chair of the Pensions Board and members of the Pension Committee.

The Head of Pensions Administration responded to members questions and it was;

Resolved - That the report be noted.

43 **MPF BUDGET 2021 - 2022**

Donna Smith, Head of Finance & Risk, presented a report that had been presented to the Pensions Committee and had requested that Members approve the budget for the financial year 2021/22.

The budget for 2021/22 was attached as appendix 1 to the report.

The headline figures were that, during the financial year 2021/22, it was estimated that MPF would pay £368m in pensions and receive £172m in contributions from employers and employees. The Fund had a value of £9.8bn at 31 December 2020. The proposed administration costs of £25.5m including £17.4m of investment management charges to external managers represented a cost of £182.44 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs were approximately £124.01 per member or 0.18% of assets under management.

The budget for 2021/22 was higher at £25.5m than £23.0 in 2020/21 primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

Members were informed that the Fund was undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

The Head of Finance & Risk responded to members questions and it was;

Resolved – That the report be noted.

44 **FSS POLICY UPDATE**

The Head of Pension Administration presented a report that provided Members with a copy of the report updating the Fund's termination policy and a new contributions flexibilities policy that had been taken to Pensions Committee in February 2021. Appendix 1 to the report contained the Draft Termination Policy updates regarding exit debt payments and deferred debt agreement flexibilities and Appendix 2 to the report contained the Draft Policy regarding flexible contributions.

The report informed that the default position for exit payments was that they were paid in full at the point of exit. The termination policy had therefore been updated to allow for the new Regulations which allowed exiting employers (subject to a suitable review of the unaffordability of an immediate exit debt payment) to spread their exit debt over a set period or to enter into a Deferred Debt Arrangement allowing them to remain in the Fund with no active members. The policy set out the process that must be followed by the Fund when an employer exits the Fund (usually triggered when the last active contributing member leaves pensionable service). The new Regulations also permitted contribution rates to be adjusted between valuations. Currently the contribution rates set out in the valuation report stayed in place until the next valuation (except in limited circumstances or where an employer exits the Fund). These Regulations allowed changes to contributions to be made before the next valuation if an employer's circumstances met the specified criteria. The policy set out the situations where contributions may be reviewed between actuarial valuations and the conditions that must be met. The Chair requested that when the Fund consults with employers on the revised FSS that it is made clear that the new flexibilities are at the discretion of the administering authorities following appropriate engagement and due diligence with relevant parties.

The Head of Pensions Administration responded to Members questions and it was;

Resolved – That the report be noted.

45 **TREASURY MANAGEMENT STRATEGY & REPORT**

The Head of Finance and Risk, Donna Smith, presented a report that requested Members to approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2021/22. Appendix 1 to the report contained the treasury management policy statement.

The report set out the main aims when managing liquid resources that were the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows and an optimal return on investments commensurate with proper levels of security and liquidity. Effective management and the control of risk were prime objectives of the treasury management policy and practices. The report informed that MPF would comply with the twelve treasury management practices set out in the treasury management policy statement.

Resolved – That the treasury management policy statement and the treasury management practices for Merseyside Pension Fund for the financial year 2021/22 be approved.

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORTING

The Director of Pensions, Peter Wallach, presented a report that provided Board members with information on the Fund's current arrangements in relation to Taskforce on Climate-related Financial Disclosure (TCFD) requirements. The appendix to the report provided an extract from the Fund's annual report in relation to TCFD reporting. It was anticipated that mandatory reporting requirements would be more stringent.

The report informed that the Fund had been actively developing its approach to the management of climate risk and a number of actions had been taken and implemented over the past five years.

Members were informed that one of the provisions in the recently enacted UK Pensions Schemes Act 2021 was the requirement for trustees to ensure there was effective governance of schemes with respect to the effects of climate change, and to publish information relating to the effects of climate change on the scheme. This provided the legal framework for requiring trustees to make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This applied only to pension funds in the private sector. It was expected that MHCLG would consult on TCFD for the LGPS in the summer of 2021 with reporting required in annual reports from March 2023.

Addressing the systemic challenges of climate risk had been at the forefront of the Fund's responsible investment work. The Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosure (TCFD) provided a global framework to translate non-financial information into financial metrics. The Fund had included a TCFD statement in its previous two annual reports.

The Director highlighted that the TCFD had structured its recommendations around four pillars: Governance, Strategy, Risk Management and Metrics and targets. Members were informed that some of the priority actions suggested for asset owners in the near term included:

Governance: review governance arrangements to ensure there was effective board level oversight and internal management processes were in place to effectively manage the climate-related risks and opportunities.

Strategy: begin the process of analysing portfolio resilience to climate-related scenarios, including 2 degree of less outcome.

Risk management: assess the potential financial materiality of climate-related risks on the investment portfolio and evaluate the actions that needed to be taken to mitigate these risks, as well as capturing new opportunities.

Metrics: measure GHG emissions where data was available or could be reasonably estimated, for each fund or investment strategy.

Engagement: engage with companies and external fund managers, to encourage greater transparency and alignment with the TCFD recommendations.

Disclose: publicly disclose all of the above actions and outcomes in annual reports and the climate risk in PRI's reporting framework.

The Chair of the Pensions Board commended the Fund and the Pension Committee for taking this issue forward and it was;

Resolved – That the report be noted.

47 **MEMBERS' LEARNING & DEVELOPMENT 2021**

The Director of Pensions presented a report that provided Members with an outline of the potential opportunities for learning & development in 2021. Members would be sent invitations nearer to the time of the training events – which to date had been held virtually.

Members discussed a suggestion that it would be useful if each member kept a log of any training that had been undertaken relating to Pensions and other matters e.g., diversity training. The Director Pensions indicated that a record was currently maintained that included participation in training and events suggested by the Fund and agreed that a record of any other training that had been undertaken would be useful and this could be updated every 3 months.

The Chair requested that more emphasis be placed on Pensions Administration training as this was an increasingly complicated area that members of the Board needed to be kept up to date on.

Resolved – That the proposed learning and development plan for 2021 be noted and approved.

48 **CEM BENCHMARKING REPORT**

The Head of Pension Administration, Yvonne Murphy, presented a report that informed that MPF was a founder member of a group of LGPS Funds who had supported the expansion of CEM Benchmarking services from the investment arena into the pension administration functions.

The outcomes of the benchmarking exercise undertaken for the year ending March 2020 was summarised in the Appendix to the report. John Simmonds, Principal of CEM Benchmarking UK, attended the meeting and provided a brief presentation and responded to questions from members.

The report informed that undertaking external assessment was vital to help drive service improvement and assess value for money. The aim was to provide independent assurance on the service the Fund provided by measuring a range of functions and comparing performance to similar organisations and best practice standards; to identify areas of strength and those areas that would benefit from review and improvement.

The Chair of the Pension Board indicated that he welcomed the fact that MPF was taking part in the benchmarking service. He commented that this was a positive report and thanked Mr Simmonds for his coherent and easy to understand presentation.

Resolved – That the report be noted.

49 **MINUTES OF WORKING PARTY MEETINGS**

Members gave consideration to a report of the Director of Pensions 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 exempt minutes be noted.

50 **NON RECOVERY OF PENSION PAYMENTS**

Members gave consideration to a report of the Director of Pensions that provided Members with a copy of the report taken to Pensions Committee. Members were informed that, taking on board a suggestion made at the Pensions Committee, MPF would in future be proactive in informing Fund members who were moving abroad that the Fund would be conducting life existence checks every two years. The Chair indicated that the Pension Board would support this tightening up of policies.

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.

51 **PROPERTY PORTFOLIO RENT ARREARS**

Members gave consideration to a report of the Director of Pensions that provided members with a copy of the report taken to Pensions Committee that had requested that Members agree to the write off of £592,846.07 of unrecoverable rent arrears from the Fund's property portfolio. The report informed that the annual property rental income for 2019/20 was £30.9 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 report be noted.

52 **ADMIN KPI REPORT**

Members gave consideration to a report that provided the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period 1 October 2020 to 31 December 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.

53 **UPDATE ON TAX MANAGEMENT ARRANGEMENTS**

The Director of Pensions, Peter Wallach, presented a report that provided members with an update on the progress made by the Fund in

- Recovering Withholding Tax (WHT) from UK and European tax authorities.
- Reclaiming tax on Manufactured Overseas Dividends (MOD).

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.

54 **RISK REGISTER**

The Director of Pensions, Peter Wallach, introduced 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.

55 **NORTHERN LGPS UPDATE**

Members gave consideration to a report of the Director of Pensions that provided Board members with an update on pooling arrangements in respect of MPF and the Northern LGPS. Minutes of the previous Joint Committee meeting were appended to the report for noting.

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.

56 **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.

57 **CEM BENCHMARKING REPORT EXEMPT APPENDIX**

The appendix to the report on CEM Benchmarking was exempt by virtue of paragraph 3.

58 **WORKING PARTY MEETINGS EXEMPT MINUTES**

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

59 **NON RECOVERY OF PENSION PAYMENTS EXEMPT APPENDIX**

The appendix to the report on Non recovery of Pension Payments was exempt by virtue of paragraph 3.

60 **PROPERTY PORTFOLIO RENT ARREARS EXEMPT APPENDIX**

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

61 **ADMIN KPI REPORT EXEMPT APPENDIX**

The appendix to the report on Admin KPI was exempt by virtue of paragraph 3.

62 **UPDATE ON TAX MANAGEMENT ARRANGEMENTS EXEMPT APPENDIX**

The appendix to the report on Update on Tax Management Arrangements was exempt by virtue of paragraph 3.

63 **RISK REGISTER EXEMPT APPENDIX**

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

64 **NORTHERN LGPS UPDATE EXEMPT MINUTES**

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

65 **ADMISSION BODY APPLICATION**

The Head of Pension Administration, Yvonne Murphy, introduced a report that provided Members with a copy of the report taken to Pensions Committee in February regarding the admission of Improvement and Development Agency for Local Government (IDeA) to Merseyside Pension Fund (MPF) as a community admission body.

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.

66 **COUNCILLOR PAT CLEARY**

Councillor Pat Cleary, Chair of the Pensions Committee, attended the meeting and addressed members. He offered his thanks to all members of the Board for their diligence and attention to detail and noted that the meeting had been very interesting. Councillor Cleary referenced the areas of Climate Risk, Training and IMWP meetings commenting that it was pleasing to note that members of the Board had been attending Working Party meetings as observers. He hoped that if the limit on the numbers of observers could be relaxed that more members could be encouraged to attend. Councillor Cleary further commented that the Pensions Committee was impressed by the work done by officers such as the introduction of CEM Benchmarking and noted that the Pensions Committee was grateful for the positive work that Board members do. He concluded by thanking all Board Members for their input in the meeting.