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PENSIONS COMMITTEE

Tuesday, 22 June 2021

<u>Present:</u>	Councillor	P Cleary (Chair)	
	Councillors	AER Jones J Bird C Carubia H Collinson D Burgess Joyce (dep for Cllr C Povall)	T Cox JE Green B Kenny L Rowlands
	Councillors	Mrs J Aston, Knowsley Council M Bond, St Helens Council	
<u>Apologies</u>	Councillors	C Povall P Lappin R Bannister	

1 WELCOME AND INTRODUCTION

The Chair welcomed Members of the Pensions Committee and viewing members of the public to the meeting. The Chair welcomed new members to the Committee and thanked outgoing members, Councillors George Davies, Steve Foulkes, Andrew Gardner and Tony Jones for their contributions.

2 APOLOGIES

Apologies had been received from Mr R Bannister, Councillors P Lappin and C Povall.

3 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

The following declarations were made:

Councillor Jo Bird		Pecuniary interest by virtue of her partner being a member of Merseyside Pension Fund.
Councillor Helen Collinson	Helen	Pecuniary interest by virtue of being a deferred member of Merseyside Pension Fund.
Councillor Les Rowlands	Les	Pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

4 **MINUTES**

Resolved – That the accuracy of the minutes of the meeting held on 29 March 2021 be agreed.

5 **PUBLIC AND MEMBER QUESTIONS**

A question received in advance of the meeting was presented to the Committee and responded to as follows.

Q: The people of Palestine have been living under occupation and denied their human rights for more than 50 years. 1.9 million Palestinians are cut off from the outside world by a blockade of Gaza and 4 million live under an Israeli government occupation that continues to build illegal settlements that segregates them behind a wall. There are many companies that are profiting from this illegal breach of human rights.

Does the Merseyside pension fund invest in any such companies and if so how much does it invest?

A: The Fund takes its responsibilities as an asset owner seriously and Human Rights are a fundamental element of those responsibilities. Our policy of Responsible Investment (RI) reflects the view that environmental, social and corporate governance (ESG) factors can materially affect investment performance.

Accordingly, we take ESG issues seriously and place importance on active ownership in managing and shaping ESG matters. We principally do this through collaborative working whether that is with other local government pension schemes through the Local Authority Pension Fund Forum (LAPFF), or with our Northern LGPS partner funds (Greater Manchester & West Yorkshire). We also appoint a third party, currently Pensions & Investment Research Consultants (PIRC), who assist us in fulfilling our fiduciary responsibility as a long-term investor.

Where we become aware that companies may be involved in breaches of international law or complicit in human rights abuses, we seek to engage with companies in order to gather information and evidence. Our objective is to see that companies are acting in accordance with their responsibilities to respect human rights, as detailed by the United Nations Guiding Principles on Business and Human Rights.

In relation to your question, we have been advised that the Fund is invested in some companies featuring in a database, created by the United Nations High Commissioner for Human Rights, of business enterprises involved with or operating in the Occupied Territories.

The Fund's present holdings and values are:

Companies on 'U.N. list' currently held by Merseyside Pension Fund	Approx. current £value of shareholding (includes direct & indirect exposure via externally-managed funds)
ALSTOM EUR7.0	£923,648

Bank Hapoalim B.M.	£59,045
Booking Holdings Inc.	£785,510
Expedia Group Inc.	£211,044
General Mills Inc.	£409,072
Mizrahi Tefahot Bank Ltd.	£15,688
Motorola Solutions Inc.	£337,766

TOTAL across seven companies is currently valued at £2,741,773

In the main, these are large, international companies with wide-ranging interests. Consistent with our policy, we are engaging with them to understand how they are addressing the reputational implications of their activities. Useful further understanding and context of the issues has been gained. LAPFF has also met with the UN Special Rapporteur to discuss the companies linked to the Occupied Territories. The advice received remains that we need to give the engagement process time, but that we also give companies a clear sense of human rights expectations and why they are considered to fall short.

The Chair of the Committee noted that the response to the question raised would also be sent to the member of the public in writing. Through the NLGPS the Chair of the Pension Committee had specifically raised the issue with the Palestinian Solidarity Campaign and asked for the Policy to be enhanced. A supplemental question was then raised;

Q: Does the Pensions Committee agree with me that it is a priority to investigate the issue and consider special proposals at its meeting to divest investment from companies assisting in the violation of Palestine?

A: We take Human Rights very seriously particularly in conflict areas. The Policy is under review, but I would advise that the policy has to operate within the legal framework that is set down by Government and we operate in the legal framework. The Policy will return to Committee no later than November 2021 when the Pension Committee will discuss, debate and review that Policy and satisfy itself that the Policy is robust enough to deal with the issues you have raised.

6 AUDIT PLAN

Mr Stuart Basnett, Audit Manager, Grant Thornton UK attended the meeting and presented the External Audit Plan for Merseyside Local Government Pension Scheme Year ended 31 March 2021. Mr Basnett reported upon the key issues contained in the report and responded to Members questions and it was;

Moved by the Chair and formally seconded by Councillor Jeff Green:

Resolved – That;

1. Grant Thornton be thanked for the presentation on the Audit Plan.

2. the Audit Plan be noted.

7 STATEMENT OF ACCOUNTS 2020/21 - MANAGEMENT QUESTIONS

Members gave consideration to a report of the Director of Pensions that requested that members review and endorse the management responses to questions posed by the Fund's external auditors, Grant Thornton.

Donna Smith, Head of Finance and Risk, introduced the report and informed Members that Grant Thornton, as part of their audit of the Fund's Statement of Accounts for 2020/21 had asked management to respond to a series of questions.

Fund officers had completed the questionnaire prepared by Grant Thornton and presented it to Members, to support Members responsibilities in relation to the financial reporting process. This would inform the auditors risk assessment, where the auditor was required to make inquiries of Pensions Committee under auditing standards.

The questionnaire provided members with an understanding of management processes and the Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Related Parties
- Accounting Estimates

The completed questionnaire was attached as an appendix to the report. The Head of Finance and Risk responded to members questions and moved by the Chair and formally seconded by Councillor Jeff Green, it was;

Resolved – that the management responses to questions posed by the Fund's external auditors Grant Thornton, having been reviewed by the Pensions Committee, be endorsed.

8 LOCAL GOVERNMENT PENSION SCHEME UPDATE

Members gave consideration to a report of the Director of Pensions that informed Members on the publication of a Written Ministerial Statement on McCloud and the remedy for the Local Government Pension Scheme (LGPS), along with recent developments on ongoing national issues and overriding legislation that would impact on the administration of the LGPS. The response to the consultation 'Increasing the Normal Minimum Pension Age: Consultation on Implementation' was attached as an appendix to the report.

Yvonne Murphy, Head of Pension Administration, highlighted the key points in the report and responded to Members questions. To provide some context for new Committee Members, the Head of Pensions explained the background to the report, that the 'Court of Appeals' ruling in December 2018 had confirmed that the transitional protections provided for members of the Judges' and Firefighters' pension schemes when the public sector pension reforms were implemented in 2014 and 2015, were age discriminatory. This was because eligibility for these protections had

been based on an age criterion. Similarly, age-restricted transitional protections had also provided across the other public service pension schemes including the LGPS and last year the government had announced that it would seek to remedy the position. On 16 July 2020, the Ministry of Housing, Communities and Local Government (MHCLG) had released the much-anticipated consultation on the McCloud remedy for the LGPS in England and Wales and could be accessed from the following link:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc - amendments to LGPS underpin -
_FOR_PUBLICATION.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf)

The consultation had closed on 8 October 2020 and a response to the consultation was expected later this year. The recent written statement could be accessed from the following link:

<https://questions-statements.parliament.uk/written-statements/detail/2021-05-13/hcws26>

The report informed that the statement confirmed the key changes that the Government would make to the LGPS regulations to remove the unlawful age discrimination. The regulations would be retrospective to 1 April 2014 and it was expected that MHCLG would issue a full response to the consultation later this year.

A Public Service Pensions Bill would introduce amendments to incorporate the McCloud judgment into public service pension schemes, and subsequently MHCLG would publish draft regulations later this year implementing the remedial McCloud provisions in readiness for the effective date of 1 April 2023.

In preparation for the enactment of the legislation, Fund Officers had undertaken a project to identify qualifying members who were in scope for underpin protection and were verifying the data held in relation to hour changes and breaks in service received for membership accrual post 1 April 2014.

In relation to the Consultation on Increasing the minimum pension age from 55 to 57 in April 2028, Members were informed that Merseyside Pension Fund had responded to the recent consultation on the national increase of the minimum pension age from age 55 to 57. A copy of the response was attached as Appendix A to the report.

Moved by the Chair and formally seconded by Councillor Les Rowlands, it was;

Resolved – That the operational implications emerging from impending changes to the regulations and industry developments be noted.

9 BUDGET OUTTURN 20/21 AND FINAL BUDGET 21/22

Members gave consideration to a report of the Director of Pensions that requested Members to note and approve:

- The out-turn for the financial year 2020/21.
- The finalised budget for the financial year 2021/22.

Donna Smith, Head of Finance and Risk, reported that the actual out-turn for 2020/21 was £21.5m, lower than the original budget approved 3 February 2020 of £23.0m and lower than the projected out-turn of £22.0m as reported at Pensions Committee on 29 March 2021. The underspend was largely due to planned projects and areas of work being deferred to 2021/22 as a result of the pandemic, and the assumptions used for staffing. The finalised out-turn was included in appendix 1 of the report.

The 2021/22 budget reported in March had been reviewed and remained the same as reported and approved in March, the finalised 2021/22 budget was £25.5m.

It was reported that 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.

The Head of Finance and Risk responded to Members questions and moved by the Chair and formally seconded by Councillor Jeff Green, it was;

Resolved – That;

1 the out-turn for 2020/21 be noted.

2 the finalised budget for 2021/22 be approved.

10 **MEMBER LEARNING & DEVELOPMENT PROGRAMME**

The Director of Pensions presented a report that reminded Members of the requirement to ensure that all involved in the governance of public sector funds can evidence that they have the knowledge, skills and commitment to carry out their role effectively. Details of the Fund's provision of opportunities for learning & development in the forthcoming year were set out in appendix 1 to the report. The Director also noted that Members would be made aware of other events as they arrived. The Fundamentals course was recommended for all new (and existing members if wished) and it was possible to mix and match modules.

The Chair of the Committee encouraged Members to consider the range of training opportunities outlined and:

Moved by the Chair and formally seconded by Councillor Adrian Jones, it was;

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

11 **TASKFORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURE REPORTING**

The Director of Pensions introduced a report that provided 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.

It was reported that one of the provisions in the recently enacted UK Pensions Schemes Act 2021 was 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 later on this year with reporting required in annual reports from March 2023.

The report informed that 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 and intended to continue with that practice with this year's report which was in preparation.

The TCFD had structured its recommendations around four pillars: Governance, Strategy, Risk Management and Metrics. The report set out some of the priority actions suggested for asset owners in the near term that 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 a 2 degree or 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.

Moved by the Chair and formally seconded by Councillor Chris Carubia, it was;

Resolved – That the report be noted.

12 PENSION BOARD MINUTES

The Director of Pensions introduced a report that provided members with the minutes of the previous meeting of the Local Pension Board. The Chair noted that he had attended this meeting and commented that the Pensions Committee was fortunate in

terms of the quality of the Local Pensions Board. The Director of Pensions reported that the contract of the Independent Chair had also been extended by four years.

Moved by the Chair and formally seconded by Councillor Chris Carubia, it was;

Resolved - That the minutes of the Local Pension Board held on 31 March 2021 be noted.

13 **NORTHERN LGPS UPDATE**

The Director of Pensions introduced a report that provided Members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS. Minutes of the previous Northern LGPS Joint Committee meeting were attached as an appendix to the report.

Moved by the Chair and formally seconded by Councillor Les Rowlands, it was;

Resolved – That the report be noted.

14 **WORKING PARTY MINUTES**

A report of the Director of Pensions provided Members with the minutes of meetings of Working Parties held since the previous meeting. The Chair encouraged Members of the Pensions Committee to attend IMWP and WP meetings and it was noted that invitations would be circulated.

Moved by the Chair and formally seconded by Councillor Chris Carubia, it was;

Resolved – That the minutes of the Working Party be approved.