

Public Document Pack

PENSIONS COMMITTEE

Tuesday, 16 July 2019

Present:

Councillor P Cleary (Chair)

Councillors G Davies B Kenny
A Gardner G Watt
T Jones
H Cameron (dep for
Cllr C Povall)

Councillors Ms J Aston, Knowsley Council
J Fulham, St Helens Council
P Lappin, Sefton Council

R Bannister, Unison retired member
representative

Apologies

Councillors C Carubia
S Whittingham

S Brunskill

13 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 John Fulham declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund and a Board Member, Torus.

Councillor Andrew Gardner declared a pecuniary interest by virtue of 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 Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

14 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 25 March, 2019 be agreed.

15 **VOTE OF THANKS - PAUL DOUGHTY**

On behalf of Members Councillor John Fulham offered a vote of thanks to former Councillor Paul Doughty who had attended the last meeting of the Pension Committee in his role as Chair. The Chair and members of the Committee endorsed this and commented that Paul Doughty had been an excellent Chair to the Committee, recorded their thanks to him for representing the Committee during his time as Chair and wished him well for the future.

16 **APPOINTMENT OF VICE-CHAIR AND REPRESENTATION AT NLGPS MEETINGS**

Resolved – That;

- 1 Councillor George Davies be appointed Vice-Chair of the Pensions Committee for the municipal year 2019-2020.**
- 2 Spokespersons be invited to attend future Pooling meetings at a maximum of two Spokespersons per meeting and names to be advised to Chair of the Pensions Committee and the Director of Pensions.**

17 **AUDIT FINDINGS REPORT**

Members gave consideration to the Audit Findings Report 2018 - 2019 prepared by Grant Thornton UK LLP. Grant Patterson, Key Audit Partner and Stuart Basnett, Engagement Manager attended the meeting and reported upon the key issues contained in the report including the potential impact of the McCloud judgement.

It was reported that the audit was now substantially complete and subject to outstanding queries being resolved it was anticipated that an unqualified audit opinion would be provided in respect of the financial statements as shown in Appendix B: Audit opinion of the report.

The report confirmed that there were no significant facts or matters that impacted on the independence as auditors that were required or wished to be drawn to the Committee's attention.

Resolved – That;

- 1 the Audit Findings report be noted.**

2 the Audit Findings report be recommended to the Audit and Risk Committee.

18 STATEMENT OF ACCOUNTS/LETTER OF REPRESENTATION

Members gave consideration to a report of the Director of Finance & Investment (S151) that presented Members with the audited statement of accounts of Merseyside Pension Fund for 2018/19 and responded to the Audit Findings Report from Grant Thornton.

Donna Smith, Head of Finance & Risk, informed the Committee that subject to outstanding work, Grant Thornton had indicated there would be an unqualified opinion and there were no adjustments affecting the Fund's reported financial position for the year ended 31 March 2019 of net assets of £8.9bn and no recommendations.

It was reported that the one misclassification identified by Grant Thornton within the fair value hierarchy disclosure note had been agreed and amended.

During the audit period the Fund had obtained a revised actuarial statement on the value of retirement benefits that reflected the McCloud position.

A Letter of Representation had been prepared on behalf of the Committee that gave assurances to the Auditor on various aspects relating to the Pension Fund and was included as an appendix to the report.

Resolved – That;

- 1 having considered the amendments to the accounts, the Audit Findings Report and the Letter of Representation the audited Statement of Accounts for 2018/19 be approved.**
- 2 the recommendations be referred to the Audit and Risk Management Committee.**

19 DRAFT ANNUAL REPORT AND ACCOUNTS

A report of the Director of Pensions provided Members with the draft Annual Report of Merseyside Pension Fund for 2018/19.

Donna Smith, Head of Finance & Risk informed Members that the LGPS regulations required the Pension Fund Annual Report to contain the Fund Accounts and Net Asset Statement with supporting notes and disclosures prepared in accordance with proper practices.

International Standards on Auditing (UK&I) 810 (revised) required that auditors read any information published with the accounts. It also stated that the auditor should not issue an opinion until that other information is published.

The Fund's Statement of Accounts and the auditor's Audit Findings Report were separate items on the agenda and provided additional assurance that the annual report had been subject to independent scrutiny.

Resolved – That the draft Annual Report of Merseyside Pensions Fund be approved for publication.

20 **BUDGET OUTTURN 18/19, FINAL BUDGET**

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

- The out-turn for the financial year 2018/19.
- The finalised budget for the financial year 2019/20.
- The 3 year budget for MPF as required for the annual report.

It was reported that the actual out-turn for 2018/19 was £17.6m, lower than the original budget approved 16 July 2018 of £22.0m and lower than the projected out-turn of £19.4m as reported at Pensions Committee on 21 January 2019. This lower figure was principally due to the Q4 sell-off in equity markets which reduced investment management costs.

The report informed that the 2019/20 budget reported in January had been updated to reflect agreed reduction in unpaid leave, along with revised salary overheads, IT, actuary and departmental & central support charges; the finalised 2019/20 budget was £22.3m.

The appendices to the report contained the budget for 2019/20 including the out-turn for 2018/19 and the original appendix as reported to Members on 21 January 2019 were attached to the report for Members information.

Resolved – That;

- 1 the out turn for 2018/19 be noted.**
- 2 the finalised budget for 2019/20 be approved.**
- 3 other issues for inclusion in the 2018/19 Annual Report including 3 year financial estimates be approved.**

21 **WIRRAL COUNCIL MOTION**

A report of the Director of Pensions informed Members of a Wirral Council motion debated at Council on 18 March 2019 (minute 125 refers).

An extract from the Council papers in relation to the motion 'Future Pensions Fit for Purpose' Proposed by Councillor Pat Cleary and Seconded by Councillor Paul Doughty was provided for members information.

Members welcomed the report and commented that it would be useful if motions that are directly relevant to the Pension Fund, from this and other Authorities, could be brought to future meetings of the Committee for Members information.

Resolved – That the report be noted.

22 LGPS UPDATE

Members gave consideration to a report of the Director of Pensions that covered two government consultations, 'Restricting Exit Payments in the Public Sector' published by HM Treasury, and 'Changes to the Local Valuation Cycle and Management of Employer Risk' by the Ministry of Housing Communities & Local Government (MHCLG).

The HM Treasury consultation had been issued on 10 April 2019 with a closing date of 3 July and the MHCLG consultation had issued on 8 May 2019, closing on 31 July.

It was reported that the Fund response to the HM Treasury consultation had been shared with the Chairs of Pension Committee and Pension Board for comment and approval prior to submission and were attached as Appendix A to the report for noting.

A draft response to the MHCLG consultation was attached as Appendix B to the report for Members consideration, comment and approval.

The report also updated Members of recent developments on the Scheme Advisory Board review of governance models for the LGPS.

Yvonne Murphy, Head of Pension Administration outlined the report to the Committee, responded to Members questions and highlighted that, as the Committee were aware, as reported at the Committee meeting dated 15 November 2016 (minute 128 refers), of the Government's intent to cap the cost of early retirement packages within the public sector at a total cost of £95,000 per employee. The cap would include the value of any early retirement strain payments, and it was envisaged that the ability to take an unreduced early retirement pension would be severely restricted for a number of members. As such the new regulations would reduce pension costs for affected employers given that the total exit payments made to employees would now be capped. Separate administrative processes would need to be implemented by the Fund for those employers covered by the cap, and for those not covered. The Fund would need to establish and keep a clear record of which employers fall into each category.

With regard to the MHCLG consultation the proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer membership of the LGPS to new entrants could lead to a reduction in the active membership base with an adverse impact on cash flow and the pace of scheme maturity. Members were apprised of the late submission of comments from the Chair of the Pension Board vehemently opposing this proposal.

Members shared the concerns and commented that this would be a retrograde step leading to a two-tier system and the diminishing of Funds. Committee requested the Fund's response to be strengthened to demonstrate opposition to the proposal from both an employee and Funding perspective.

Resolved – That;

- 1. the response sent to HM Treasury regarding the consultation on 'Restricting Exit Payments in the Public Sector' be noted, and;**
- 2. the Fund's draft response to the MHCLG consultation on 'changes to the Local Valuation Cycle and Management of Employer Risk' be revised to reflect the concerns raised and shared with Pension Committee for formal approval prior to submission to the government on 31 July 2019.**

23 SCHEME PAYS POLICY

A report of the Director of Pensions reviewed Merseyside Pension Fund's current policy decision, which had been recommended to the Pensions Committee at its meeting on 22 January 2018 (minute 58 refers), to not operate "Voluntary Scheme Pays" for scheme members who breach HMRC's Annual Allowance limit for pension saving growth.

It was reported that following a challenge to that recommendation and a survey of other LGPS Funds in regard to their approach to Scheme Pays, it was now recommended that the decision be revised to allow scheme members the opportunity to elect for the Fund to pay their tax charge under 'Voluntary Scheme Pays' in respect of their pension growth from tax year 2018/19.

Resolved – That the use of Voluntary Scheme Pays in the following circumstances be approved:

- a) Where a member's pension savings are subject to the tapered annual allowance in relation to pension growth with Merseyside Pension Fund and the tax charge is in excess of £2,000.**
- b) Where a member, as a result of administrative difficulties beyond their control, misses the 'mandatory Scheme pays' deadline (e.g. where the member was not provided with the necessary information on time).**
- c) Any other cases where it can be demonstrated that exceptional circumstances apply, that approval is delegated to the Head of Pension Administration.**

24 SYSTEMATIC INVESTMENT

Members gave consideration to a report of the Director of Pensions that provided Members with a further update on the progress made in the development of internally managed factor-based investment strategies.

The Director of Pensions provided a summary of the report and responded to Members questions. It was reported that in January 2018, Committee had given approval for the Director of Pensions to continue the development and implementation of an internally managed factor portfolio consistent with the philosophy outlined in the report to Committee.

The Director informed Committee that a global multifactor portfolio had been funded in March this year with an initial investment of around £200m. This had followed extensive back-testing and verification by the investment team in conjunction with FTSE Russell who provided assurance around the multifactor process that had been adopted. Considerable modification to internal operational processes and procedures had also been required and these had been reviewed by internal audit and a satisfactory audit opinion had been received. The Fund's Compliance Manual was being updated with these changes and would be brought to a future meeting of this Committee.

The appendix to the report provided an overview of the factor portfolio's philosophy and process which was intended to be complementary to the existing mix of internal and external portfolios.

Resolved – That the report and the progress made in increasing the proportion of internally managed assets be noted.

25 **AUTHORISED SIGNATORIES**

A report of the Director of Pensions informed members of the name change of an existing authorised signatory.

The report described the different requirements for various institutions and functions, including the banks, custodian, and overseas pensions payment agent, as well as the granting of power of attorney where appropriate.

The report also formed a part of the Fund's scheme of delegation and set out the management and authorisation arrangements, for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction.

Resolved – That;

- 1 the name change of previously approved authorised signatories for Merseyside Pensions Fund be noted.**
- 2 subject to the title change of Paul Satoor, from Director for Corporate Resources and Reform to Chief Executive, the officers designated in section 2 of this report continue to be approved as authorised signatories for Merseyside Pensions Fund.**

26 TREASURY MANAGEMENT ANNUAL REPORT

Members gave consideration to a report that presented a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2018/19 financial year and reported any circumstances of non-compliance with the treasury management strategy and treasury management practices. It had been prepared in accordance with the revised CIPFA Treasury Management Code.

Treasury Management in Local Government was governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context was the “management of the Fund’s investments and cash flows, its banking, money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”.

On 22 January 2018 Pensions Committee had approved the Treasury Management Policy and Strategy 2018/19.

The report related to money managed in-house during the period. It excluded cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

Resolved – That the Treasury Management Annual Report for 2018/2019 be agreed.

27 POOL OPERATING AGREEMENT

The Director of Pensions introduced a report that provided Members with a progress report on the implementation of governance arrangements in relation to Merseyside Pension Fund’s participation in the Northern LGPS pool (NLGPS).

A copy of the Operating Agreement for the Northern LGPS, which had been taken to Council on 15 July for approval, was attached at Appendix A to the report. The Operating Agreement had been the subject of a report to Pensions Committee on 29 October 2018.

The report informed that in the July Budget 2015, the Chancellor had announced the Government’s intention to work with Local Government Pension Scheme (LGPS) (the Scheme) administering authorities to ensure that they pooled investments to significantly reduce costs while maintaining overall investment performance. The Government had subsequently issued the criteria which set out how administering authorities could deliver against the Government’s expectations of pooling assets. The report addressed the second of those criteria - Strong governance and decision making. Pooling has been a standing item on the Pensions Committee agenda since that time.

It was reported that in response to the Government’s pooling requirements, eight pension pools had been established across England & Wales encapsulating the 88 local government pension funds - and a range of pooling structures had been put in place. Merseyside Pension Fund had formed the Northern LGPS pool with two other local government pension funds; Greater Manchester and West Yorkshire Pension Funds, all large, cost effective Metropolitan funds. The individual funds would retain

their current role of setting asset allocation and investment policy and would delegate the implementation of that policy to the Northern LGPS.

Members were informed that a Joint Governance Committee would be formed which would have responsibility for ensuring that the appropriate structure and resources were in place to implement the policy required by each fund, those resources to be provided by the three Funds. The principal activities of the Joint Governance Committee were set out in Schedule 2 of the appendix to the report.

The Director of Pensions advised that a meeting had been held in March 2018 with the advisors to all three funds and the NLGPS shadow Joint Governance Committee to consider options for developing the pool. The unanimously supported conclusion had been to design a simple, low cost pool that will continue delivering the performance the funds expect.

The Northern LGPS Operating Agreement was attached to the report as Appendix A, and set out how the Northern LGPS will operate, with the three partners having equal voting rights, being responsible for costs on an equal basis (except investment management costs which will be attributed in proportion to the assets being managed). The Agreement also appointed Tameside Borough Council (the administering authority for Greater Manchester Pension Fund) as the host council. The key items of note were those contained in the first three schedules to the agreement, which determined the:-

- Matters reserved to the Pooling Partners
- Joint Governance Committee Terms of Reference
- Joint Governance Committee Procedure

Following agreement by Pensions Committee on 29 October 2018, the Director of Pensions and the Borough Solicitor had been reviewing the Operating Agreement and liaising with pool partners and advisors with a view to ensuring a mutually acceptable agreement that provides Wirral, as administering authority, with the ability to discharge its responsibilities.

Recommended – That Committee approves and recommends to the Standards and Constitutional Oversight Committee and full Council the proposed principles of governance contained in the draft Operating Agreement and delegates to the Director of Pensions and the Director: Governance and Assurance the authority to negotiate and agree with Tameside and Bradford Councils the final draft of the Operating Agreement in consultation with the Chair.

28 TRAINING & DEVELOPMENT OPPORTUNITIES

Members gave consideration to a report of the Director of Pensions that provided additional information on training and development opportunities.

Members were informed 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 Committee 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 approved by Committee annually with further details of events provided nearer the time.

The appendix to the report provided further information on opportunities of which the Fund has been notified.

It was a statutory requirement that the Fund's annual report included 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. The Chair of the Pensions Committee encouraged Members attendance at the training events and it was;

Resolved – That;

- 1 the report be noted.**
- 2 details of forthcoming Conferences and Training events be circulated to Members by the PA to the Director of Pensions.**

29 **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.

Resolved – That the minutes be approved.

30 **PENSION BOARD MINUTES 13/06/18**

Members gave consideration to a report of the Director of Pensions that provided the minutes of the previous meeting of the Local Pension Board.

The Chair of the Committee commented that the value of the Local Pension Board and the useful feedback it provided to the Pensions Committee was appreciated.

Resolved – That the report be noted.

31 **POOLING UPDATE**

Members of the report provided Members with an update on pooling arrangements in respect of MPF and the Northern LGPS. Since the previous update, progress had been made on the Operating Agreement which was the subject of a separate report to the Committee.

Approval was sought for a revision to the Fund's Investment Strategy Statement https://mpfmembers.org.uk/pdf/iss_1.pdf to reflect the way in which pooling was progressing. A draft of the revised wording was attached as appendix 1 to the report.

Appendix 2 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;

- 1 the pooling report and minutes of the Shadow Joint Committee meeting on 28 March 2019 be noted.**
- 2 the revised wording for the Fund’s Investment Strategy Statement be approved.**

32 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.

33 POOLING UPDATE EXEMPT APPENDIX 2

Appendix 2 to the report on Pooling Update was exempt by virtue of paragraph 3.

This page is intentionally left blank