BIRMINGHAM CITY COUNCIL

ECONOMY, SKILLS & TRANSPORT O&S COMMITTEE – PUBLIC MEETING

10.30 hours on 11th September 2019, Committee Room 2, Council House – Action Notes

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Present:

Councillor Tahir Ali (Chair)

Councillors John Clancy, Chaman Lal, Julien Prichard and Simon Morrall.

Also Present:

Rachel Brothwood, Director of Pensions, West Midlands Pension Fund

Jill Davys, Assistant Director – Investments and Finance, West Midlands Pension Fund

Baseema Begum, Research & Policy Officer

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1. NOTICE OF RECORDING/WEBCAST

The Chairman advised the meeting to note that members of the press/public may record and take photographs.

2. DECLARATIONS OF INTEREST

Cllr Lal declared a non-pecuniary interest as a beneficiary of the West Midlands Pension Fund (WMPF). Cllr Clancy stated that he is the City Council's substitute member on the WMPF's Pensions Committee.

3. APOLOGIES

Councillors Ken Wood and Lou Robson.

4. ACTION NOTES

The Committee agreed the action notes for the meeting held on the 10th July 2019.

5. WEST MIDLANDS PENSIONS FUND

(See document No. 1)

The Chair welcomed Rachel Brothwood and Jill Davys from the West Midlands Pension Fund (WMPF)to the meeting. The presentation that was circulated with the agenda pack was talked to.

Members then raised the following points and questions:

- The amount of investment management expenses and fees as listed in the latest WMPF annual accounts was queried as these have increased quite considerably from £60m in 2017/18 to £79m in 2018/19. It has been stated previously by the WMPF that this would be looked at in more detail.
- It was noted that half of the amount paid in investment fees can be seen to be accounted to the amount that Birmingham pays in. Currently the city pays in £0.5b per year and it was felt that this money could be better invested by the city in its local economy (both in employees and services).
- Since 2013/14 all Pension Funds have been required to report their investment expenses and fees differently than in previous years. There was concern that there had been underreporting of fees and expenses in previous years. This has impacted the contribution that Birmingham has had to pay considering the additional demand to make additional efficiency savings in light of the cuts to its core budget since 2010.
- In comparison to the other approximately 100 Pension Funds in the country the WMPF is in the lower half of the table on the return on investments made. An example of the Bradford/West Yorkshire Pension Fund (who are about the same size as WMPF) was given to demonstrate that contributors to that fund are paying in a lower amount but are receiving the same returns. It was highlighted that the return on investment made per pound on management investment costs was about 8 times worse for the WMFP than the Bradford/West Yorkshire Fund.
- Birmingham’s contribution is paid out of its revenue and housing revenue account. This was 12% on salary in 2015 raising to a projected 18.3% on salary by 2020. In addition to this Birmingham is required to pay an additional amount.
- How sustainable is the WMPF in the future as there will be more pensioners and people are living longer? What will be the impact on the Fund on this demand?
- How well does the WMPF compare in terms of investment and returns to other pension funds and in relation to local and regional investments?
- What is the WMPF doing on the climate change agenda in relation to investment in high carbon funds and the agenda to divest in fossil fuels (the City Council agreed a motion in 2017) and further in June 2019 it declared a climate emergency.
- There is a financial risk in continuing to invest in fossil fuels as well as the climate change argument. Does the WMPF have a specific resolution in

relation to investing in large gas/oil companies and what have the Fund agreed to do?

- What are other Pension Funds doing on regional investment and to tackle climate change for example Merseyside and was it possible for the WMPF to do something similar?
- Concern on the investment abroad in overseas and private equities that could be at risk if there was a global crash as in 2008.
- Do WMPF look at investing in the region locally? It was noted that the return would not be as much as investing elsewhere however there would be a social benefit and uplift to residents and the community but there is a cost to that.
- Concern that the active investment in the past was not generating the return on investment anticipated and to ease the pressure that was been felt globally government intervention known as 'quantative easing' was bought in in 2008. Therefore, there was not any expert intervention by investment managers to boost returns on investment. Furthermore, the low discount rate of about 2% implanted means a greater liability has had to be created.
- The Council's accounts show a liability of £2.5b and this affects the Council's ability to invest locally as it effects the ability to borrow.

In response to the points made Rachel Brothwood replied: -

- Birmingham does pay more into the WMPF than any other employer because it is a bigger organisation and has more employees in the Fund and has promised most pension benefits to its employees so there is a clear direct link there.
- The money collected is in the region of £500/600m per annum in contributions. About £0.5b is receiving in total by the Fund and £0.5m of this is paid out as benefits promised to members of the scheme.
- In relation to investment management costs - reported costs are £80m however this investment has generated (net of costs) an increase in the WMPF's invested assets and income of £700m onto the value of assets in one year. This will help support future payments to beneficiaries. In the last five years this has totalled £5.5b return (net of costs) and therefore this does outweigh the amount invested.
- WMPF strives to continue to improve and become a leader. The Fund are on a journey to reduce the management costs and have done this through the last five years. The challenge on comparison with others is to ensure that this is done on a 'like for like' basis.
- The Fund does follow best practice standards within the sector in reporting investment costs in the way in which it operates. CEM Benchmarking have been employed to help with this and look at the total value added.
- In 2016 a review and benchmarking exercise was undertaken on the contributions received with comparable public sector schemes. It was found that the WMPF were collecting contributions far below the average being requested elsewhere. In response the Fund decided to raise the amount to avoid a deficit in the future (and to avoid the need to request

further contributions later) and to fall in line with other comparable schemes. This was imperative to be able to pay out to future beneficiaries.

- There has been an increase in the number of people accessing their pension as demographics change and there are more older people which is recognised as a global issue and there is a need to respond to this challenge. The WMPF has been monitoring this and forecasting future changes especially with the number of people now drawing their pension and accessing their services. The Fund is responding by increasing self-service opportunities and offering more services on-line and operating more efficiently.
- In response to the future impact as increasing numbers of people access pensions and the trend continues for the Council to reduce its number of employees then this will mean that there will be fewer people contributing to the Fund and the amount needed to be paid in will have to increase. It would be detrimental to delay collecting of adequate contributions as this may lead to future problems so there is a requirement to be as balanced as possible.
- In relation to targeting responsible investment it was noted that the WMPF do not invest in hedge funds any longer but do have some liquid private equities and infrastructure assets. Careful selection is undertaken in the selection of long-term investments by the Fund.
- The Pensions Regulator has only started to regulate public sector pensions since 2015 and the WMPF has been working with them in the last 9 months. A review of the Local Government Pension Scheme (LGPS) is due shortly.
- In terms of better return on investment there are different strategies adopted by different pension funds and this impacts on returns received and the costs.
- In terms of calculating key metrics to assess against comparator Funds there is a need for disclosure on a consistent basis in order to be able to draw meaningful conclusions. There is a need for greater transparency within the investment community and this is a journey that the WMPF is undertaking. There have been improvements in terms of the information being provided and the speed at which that information has been provided. There is however a need for voluntary disclosures of costs and the tools are getting there in the industry to help with this. Until this is in place CEM benchmarking is the best available tool.
- With regards to regional property holdings of the Fund there isn't the comparator information to benchmark against others however the WMPF assesses opportunities in line with their fiduciary duty. The Fund does look at where local investment can be made however the key driver is ensuring the same investment on return. Investment managers are worked with to steer to local opportunities where the return is the same to invest in the West Midlands region.
- The Fund does not have a specific resolution however it has a strategy in place that adheres to the values of the Paris Accord 2016.

- In terms of the climate change agenda the Fund is looking at different ways to get a better understanding of how exposed it is to climate risk. Climate risk metrics are being looked at and will be included in next year's annual report. A 4-year strategy is being set and will be reviewed in due course. Engagement is also being undertaken with companies that are invested in long term and the Fund is co-signing resolutions as an investor in these companies however a key driver is policy change as this will make the biggest impact.
- The Fund has set aside a substantial allocation for the low carbon equity fund and this will be used to consider issues on investment. However, the Fund must take a balanced view on all investments made as part of its climate aware strategy as there will be a cost to implementing these. An 'index based' approach will be used on investments made.
- The WMPF Pension Committee and local pension boards receive a training programme and as part of this they have received reports on the work around the climate change agenda at quarterly meetings.
- Merseyside Pension Fund has a low carbon fund and is leading the way in this area. WMPF is looking to do something similar. A sustainable equity fund and lots of different initiatives are being considered such as investment in a wind farm portfolio and an infrastructure fund.
- Investment returns are directly related to reported costs. Views on what is best longer term and consistent reporting is in line with CIMA standards. The Fund has put these into their annual report to be transparent on costs but are awaiting further guidance on this.
- The WMPF does focus on independent global benchmarking when it comes to investment on returns and management costs. Within CEM Benchmarking there is referencing between comparable cohorts (e.g. other metropolitan authorities) including peers/cohorts on this.
- In terms of investment costs this has been looked at closely and see if it can be done cheaper. The costs associated with the private equity portfolio has also been looked and consolidated and there has been some impact on performance as a result of this.
- Information on investment managers can be found in the WMPF annual report and accounts 2018.
- Active management is an academic issue. The Pensions Committee has a set of beliefs that includes both active and positive approach to investment and these are being kept under review.
- The Pensions Regulator does not regulate the LGPS in relation to funding and investment as this is outside of its scope.
- The numbers showing on the City Council's accounts in pension benefit obligations are driven by international accounting standards in terms of how they are assessed and calculated (method and discount rate are listed here). These figures and accounts are signed off by Birmingham City Council's auditors. This figure does not impact the Council's borrowing ability.

RESOLVED: -

1. The report is noted.

6. WORK PROGRAMME DISCUSSION – SEPTEMBER 2019

(See document No. 2)

Due to a change on expected item on the Committee's work programme it was decided that the October meeting would be cancelled.

The Chair noted Cllr Robson's email request for an update on the Council's Property Strategy including a preview of planned sales and requested that officers make arrangements for this item to be added to the future work programme.

RESOLVED: -

1. All Members are notified of the cancellation of the October meeting.
2. An update on the Council's Property Strategy including a preview of planned sales is scheduled for a future meeting.

7. REQUEST(S) FOR CALL-IN/COUNCILLOR CALL FOR ACTION/PETITIONS RECEIVED (IF ANY)

None.

8. OTHER URGENT BUSINESS

None.

9. AUTHORITY TO CHAIRMAN AND OFFICERS

Agreed.

RESOLVED:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

The meeting finished at 12:09 hours.