



## Pensions Committee

**Date:** Thursday, 18 June 2009

**Time:** 6.00 pm

**Venue:** Committee Room 1 - Wallasey Town Hall

**Contact Officer:** Trevor Brassey

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## AGENDA

**1. MINUTES (Pages 1 - 6)**

To receive the minutes of the meeting held on 6 April 2009.

**2. DECLARATIONS OF INTEREST**

Members are asked to consider whether they have personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they are.

**3. APPOINTMENT OF VICE-CHAIR OF THE PENSIONS COMMITTEE**

Nominations are requested for the position of Vice-Chair.

**4. PENSION FUND ACCOUNTS**

Report to follow.

**5. LGPS CONSULTATION PAPER**

Report to follow.

**6. TREASURY MANAGEMENT ANNUAL REPORT 2008/09 (Pages 7 - 10)**

**7. AUDIT COMMISSION FEES 2009-2010 (Pages 11 - 16)**

8. **STATEMENT OF RESPONSIBILITIES OF AUDITORS (Pages 17 - 36)**
9. **INVESTMENT PERFORMANCE 2008 - 2009 (Pages 37 - 38)**
10. **LGPS REFORM UPDATE (Pages 39 - 52)**
11. **FAIR PENSIONS 2008/09 RESPONSIBLE INVESTMENT SURVEY (Pages 53 - 54)**
12. **CASH MANAGEMENT (Pages 55 - 56)**
13. **REPRESENTATION ON OUTSIDE BODIES (Pages 57 - 58)**
14. **LOCAL GOVERNMENT CHRONICLE INVESTMENT CONFERENCE (Pages 59 - 60)**
15. **JULY TRAINING EVENT (Pages 61 - 64)**
16. **REFURBISHMENT AND REPAIRS AT CUNARD BUILDING, LIVERPOOL (Pages 65 - 68)**
17. **REFURBISHMENT AT CROMWELL HOUSE, HOOK, HAMPSHIRE (Pages 69 - 72)**
18. **GLOBAL CUSTODIAN SERVICES (Pages 73 - 78)**
19. **INSURANCE OF THE PROPERTY PORTFOLIO (Pages 79 - 82)**
20. **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.
21. **ALTERNATIVE INVESTMENTS (Pages 83 - 86)**
22. **PRIVATE EQUITY (Pages 87 - 92)**
23. **APPOINTMENT OF A FRAMEWORK LIST OF TRANSITION MANAGERS (Pages 93 - 114)**
24. **KEEL ROW SHOPPING CENTRE, BLYTH, NORTHUMBERLAND - SECURITY AND CLEANING CONTRACT (Pages 115 - 118)**
25. **CLEANING CONTRACTS FOR LIVERPOOL OFFICES (CUNARD BUILDING, CASTLE CHAMBERS AND ST NICHOLAS HOUSE) (Pages 119 - 122)**
26. **CUNARD BUILDING LIVERPOOL - PHASE 1 IMPLEMENTATION (Pages 123 - 126)**

- 27. TRANSFEREE ADMISSION BODY APPLICATION - CRIME REDUCTION INITIATIVE (Pages 127 - 128)**
- 28. TRANSFEREE ADMISSION BODY APPLICATION - VEOLIA ES, MERSEYSIDE AND HALTON (Pages 129 - 132)**
- 29. ADMISSION APPLICATION - BRAMALL CONSTRUCTION (Pages 133 - 136)**
- 30. MINUTES OF INVESTMENT MONITORING WORKING PARTY 22 APRIL 2009 (Pages 137 - 144)**
- 31. PROPERTY INSURANCE**  
  
Report to follow.
- 32. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

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## PENSIONS COMMITTEE

Monday, 6 April 2009

<u>Present:</u>	Councillor	AR McLachlan (Chair)	
	Councillors	G Davies F Doyle W Duffey T Harney	R Moon L Rowlands H Smith G Watt
	Councillors	J Brown, Non District Council Employer A Ibbs, Sefton Council N Keats, Knowsley Council G Pearl, St Helens Council	
<u>In attendance:</u>		Phil Goodwin Paul Wiggins David Walsh	
<u>Apologies</u>	Councillors	D Kirwan	Councillor R Oglethorpe (Liverpool City Council)

### 85 DECLARATIONS OF INTEREST

Members were asked to consider whether they had any personal or prejudicial interests in connection with any item on the agenda.

**No declarations were made.**

### 86 MINUTES

The Director of Law, HR and Asset Management submitted the minutes of the meeting held 14 January 2009.

**Resolved – That the minutes be received.**

### 87 FINANCE DEPARTMENT PLAN 2009/10

The Director of Finance submitted a report setting out how the Finance Department would contribute to the overall delivery of Council aims and priorities during 2009/10, in the context of the Corporate Plan.

He reported that the Departmental Plan contained a number of objectives which linked to the aims and priorities of the Council. They included targets against which performance and achievement would be measured.

The Director reported that the document informed the annual budgeting process and provided the basis for detailed service plans which identified how the various divisions and sections would deliver the aims and objectives of his Department. He

reported that this in turn would flow through into the individual team members' Key Issue Exchange process.

**Resolved - That the Finance Department Plan 2009/10 be approved.**

88 **POLICY ON COMMUNICATIONS WITH MEMBERS AND EMPLOYING AUTHORITIES**

The Director reported In accordance with the Scheme Regulations the Authority was required to regularly review and publish a statement of policy concerning how it communicates with members and employing authorities

**Resolved - That the updated Communications Policy Statement be approved.**

89 **LGPS REFORM UPDATE**

The Director of Finance submitted a report informing Members of progress with the production of regulations and other guidance by the Department for Communities and Local Government (DCLG) following the introduction of the revised LGPS on 1 April 2008.

**Resolved - That the report be noted.**

90 **UPDATED GOVERNANCE COMPLIANCE STATEMENT**

The Director of Finance submitted a report providing details of the updated Governance Compliance Statement which MPF was required to publish to reflect recent changes made in order to ensure full compliance with the best practice standards issued by the Department for Communities and Local Government (DCLG).

**Resolved – That the updated governance compliance statement be approved.**

91 **INVESTMENT REGULATIONS CONSULTATION**

The Director of Finance submitted a report informing Pensions Committee that the Department for Communities and Local Government (DCLG) published draft regulations on 6 February 2009 to consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (“the investment regulations”) SI 1998/1831, and to make various amendments. A consultation exercise was open until 3 April 2009.

He outlined the scope of the proposals and detailed the proposed regulations, the key proposals, and the response.

**Resolved - That Pensions Committee note the response by the Director of Finance to the proposed amendments to the investment regulations.**

92      **STRATEGIC PROPERTY ADVISERS**

The Director of Finance submitted a report informing Pensions Committee of the progress to date of the procurement exercise to appoint a Strategic Property Investment Adviser.

He reported that Pensions Committee scheduled to take place on 24 June had been moved to 18 June.

**Resolved** – That the timetable be agreed.

93      **NATIONAL ASSOCIATION OF PENSION FUNDS CONFERENCE (NAPF)**

The Director of Finance submitted a report asking members of Pensions Committee if they wished to be represented at the NAPF Local Authority Conference, to be held in Birmingham from 18 May to 20 May 2009.

**Resolved** - That Councillor McLachlan, Chair of Pensions Committee attend the conference.

94      **CIPFA ANNUAL CONFERENCE**

The Director of Finance requested Members to consider whether there should be representation at the CIPFA Annual Conference to be held in Manchester from 23 June to 26 June 2009.

**Resolved** - That Councillor McLachlan, Chair of Pensions Committee attend the conference.

95      **JULY TRAINING EVENT**

The Director of Finance submitted a report advising Members of arrangements for a training event at the Cunard Building on 2 July 2009.

**Resolved** – That members make every effort to attend the training day.

96      **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

97      **THEMATICS FUND OF FUNDS PORTFOLIO**

The Director of Finance submitted a report informing Members of the progress to date in establishing an internally managed investment portfolio incorporating a Fund of Funds based on forward looking global investment “themes”.

**Resolved** – That the report be noted.

98 **ADMISSION APPLICATION - COLAS**

The Director of Finance submitted a report informing Members of his decision taken under delegation, to approve the application received from Colas, a transferee admission body for admission to Merseyside Pension Fund. The Company has secured a Highway and Engineering Services contract from 1 April 2009 with Wirral Council.

**Resolved** - That the approval of the application for admission body status, received from Colas by the Director of Finance be noted.

99 **ADMISSION APPLICATION - ASSOCIATED CLEANING CONTRACTORS**

The Director of Finance submitted a report informing Pensions Committee of his decision taken under delegation, to approve the application received from Associated Cleaning Contractors, a transferee admission body for admission to Merseyside Pension Fund.

**Resolved** - That the approval of the application for admission body status received from Associated Cleaning Contractors by the Director of Finance be noted.

100 **VENTURE HOUSE NEWBURY**

The Director of Finance submitted a report informing Pensions Committee of the outcome of the recent tendering exercise in respect of reinstatement, repair and redecoration work to an industrial property located in Newbury which was owned by MPF as part of the direct property investment portfolio. The tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

**Resolved** - That the acceptance of the lowest tender in the sum of £84,562.38 plus VAT be noted.

101 **MINUTES OF INVESTMENT MONITORING WORKING PARTY 25 FEBRUARY 2009**

The Director of Finance submitted the minutes of the Investment Monitoring Working Party held 25 February 2009.

**Resolved** – That the minutes be agreed.

102 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

103 **RECLAMATION OF UK WITHHOLDING TAX**



The Director of Finance submitted a report informing Members of the engagement of KPMG by the Fund to assist in the recovery of UK withholding tax (WHT) suffered on Manufactured Overseas Dividend income arising from stocklending.

He reported that the claim could achieve substantial tax repayments and was supported by existing European Court of Justice and European Free Trade Association (ECJ/EFTA) case law.

**Resolved**

**1. That the Fund's decision to engage KPMG to undertake the reclamation of WHT on MODs be noted.**

**2. That the Fund joining the GFA be agreed.**

104 **VOTE OF THANKS**

The Chair reported that as this was the final Pensions Committee for the municipal year she wished to thank fellow members and officers for their help and support throughout the year.

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

### REPORT OF THE DIRECTOR OF FINANCE

### TREASURY MANAGEMENT ANNUAL REPORT 2008/09

#### 1. EXECUTIVE SUMMARY

- 1.1 The Pensions Committee is requested to note the annual report on Treasury Management within MPF for the 2008/09 financial year, which complies with the reporting requirements of the Code of Practice for Treasury Management in Local Authorities.

#### 2. BACKGROUND

- 2.1 On 28 January 2008, the Pensions Committee approved the Treasury Management: Plan and Strategy 2008/09.
- 2.2 In addition to the quarterly presentations to the Investment Monitoring Working Party on the performance of the cash element of the Fund, the Treasury Management Plan requires an annual report to be made to Committee on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the treasury management policy statement.
- 2.3 This report relates to money managed in-house by the Fund and does not include frictional cash balances held by investment managers in respect of the external mandates or the internal UK and European investment managers.

#### 3. TREASURY MANAGEMENT

- 3.1 At 31 March 2009, the Fund had a cash balance of £67.3 million as against £100.6 million at 31 March 2008. Of these funds, £46.8 million was held on call accounts with the Royal Bank of Scotland, Invesco and Standard Life with the balance of £20.5 million on term accounts.
- 3.2 Over the twelve month period, WM calculated the cash performance to be 4.8% against a benchmark performance (3 month LIBID) of 3.6%. The performance is enhanced by the inclusion of securities lending income.

- 3.3 Transactions were undertaken in response to the day-to-day cash flows of the Fund, matching inflows from lendings to predicted outflows.
- 3.4 There was one area of non-compliance with the treasury management policy statement and treasury management practices and that was the portfolio arrangements for liquid resources. The percentage of cash on call fell below 0.5% to as low as 0.43%, this was due to a combination of factors, including the transfer of internal UK and European managers' cash to State Street, the reduction of cash in the implementation of the strategic benchmark of 1% along with investment cash outflows. The percentage of deposits with maturity dates of 1 to 6 months marginally exceeded its range to 0.52% which was corrected the following month. It also fell below the 0.25% lower limit, due to more attractive rates on call and through the use of money market funds. There was no negative impact experienced by the Fund at these times of non-compliance.
- 3.5 The Fund had a total of £7.5m deposited with Glitnir Bank £5m and Heritable Bank £2.5m. The latest presentation by Glitnir Bank indicates that full recovery of the principal and interest to 15 October 2008 is likely to be achieved. Recovery is subject to confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through Icelandic Courts. The Heritable Bank creditor progress report outlined that the return to creditors was projected to be 80p in the £ by the end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. A detailed disclosure note is being made in the annual accounts in respect of these deposits.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 The financial implications are stated above.

#### **5. STAFFING IMPLICATIONS**

- 5.1 There are no staffing implications in this report.

#### **6. EQUAL OPPORTUNITY IMPLICATIONS**

- 6.1 There are none arising directly from this report.

#### **7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1 There are none arising directly from this report.

**8. LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1 There are no specific implications for any Member or Ward.

**9. LOCAL AGENDA 21 IMPLICATIONS**

9.1 There are none arising directly from this report.

**10. PLANNING IMPLICATIONS**

10.1 There are none arising from this report.

**11. BACKGROUND PAPERS**

11.1 Treasury Management: Plan and Strategy 2008/09 – January 2008

11.2 Code of Practice for Treasury Management in Public Services – CIPFA 2002

11.3 Glitnir Creditor Meeting Presentation – 6 February 2009

11.4 Heritable Creditor Progress Report – Ernst & Young 17 April 2009

**12. RECOMMENDATION**

12.1 That Members note this report.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/109/09

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

#### REPORT OF THE DIRECTOR OF FINANCE

##### AUDIT COMMISSION FEES 2009-2010

###### 1. EXECUTIVE SUMMARY

- 1.1 This report requests Committee to approve the fee levels proposed by the Audit Commission for the current financial year.

###### 2. BACKGROUND

- 2.1 The Audit Commission undertakes a separate audit of MPF, and makes a separate charge. The annual fee for the financial year ended 31 March 2009 was £61,750 plus VAT. The audit to which that fee level relates is expected to be completed in September 2009.

- 2.2 The Audit Commission has given notice of the indicative fee levels for 2009-2010. The scale fee would be £70,900, an increase of 15%. However, in previewing the audit of the 2009-2010 accounts, the Audit Commission is aware of both local and national changes, and has proposed a fee level 4% above the scale fee. As such the proposed fee for 2009-2010 is £73,700 plus VAT. This represents an overall 19% increase above the level for 2008-2009.

- 2.3 The justification for such an increase lies in the increasing complexity of pension fund regulations. In addition, the proposed change of accounting system mid year will require additional audit checks.

- 2.4 In setting the fee at this level, the Audit Commission has assumed that the general level of risk in the audit of the financial statement is not significantly different from that identified for 2008-2009. He will issue a separate plan for the audit of the financial statements in November 2009, after completion of the 2008-2009 audit. This will detail the risks identified, planned audit procedures and any further changes in fee. Should any further changes be required to fee levels, a report would be made to Pensions Committee.

###### 3. FINANCIAL IMPLICATIONS

- 3.1 The proposed fee represents an increase of £12,000.

###### 4. STAFFING IMPLICATIONS

- 4.1 There are no staffing implications in this report.

5. **EQUAL OPPORTUNITY IMPLICATIONS**

5.1 There are none arising directly from this report.

6. **COMMUNITY SAFETY IMPLICATIONS**

6.1 There are no specific implications for any Member or Ward.

7. **LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1 There are none arising directly from this report.

8 **LOCAL AGENDA 21 IMPLICATIONS**

8.1 There are none arising from this report.

9 **PLANNING IMPLICATIONS**

9.1 There are none arising from this report

10. **BACKGROUND PAPERS**

10.1 Letter from the Audit Commission - April 2009.

11 **RECOMMENDATION**

11.1 That Pensions Committee approve the proposed increase in Audit Commission fees for 2009-2010.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/115/09



**Our reference** LTM/FL

26 April 2009

Mr I Coleman  
Director of Finance  
Merseyside Pension Fund  
Treasury Building  
Cleveland Street  
Birkenhead  
Wirral  
CH41 6BU

**Direct line** 0844 798 7043  
**Email** m-thomas@audit-  
commission.gov.uk

Dear Ian

### **Annual audit fee 2009/10**

Further to our previous discussions about the form of the audit fee letter, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Merseyside Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £70,900 (excluding VAT), which compares to the planned fee of £61,750 for 2008/09 (15% increase).

The Audit Commission has published its work programme and scales of fees 2009/10. The Audit Commission scale fee for Merseyside Pension Fund is £70,900. The fee proposed for 2009/10 is at the scale fee and will be billed in monthly instalments.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in November 2009. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Pensions Committee.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

Audit Commission, First Floor, Block 4, The Heath Technical & Business Park, The Heath,  
Runcorn, Cheshire, WA7 4QF  
T 0844 798 7300 F 0844 798 3551 [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Liz Temple-Murray      0151 666 3483

Team Leader – Danny Baxter              0151 666 3486

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the Terry Carter, the North West Region Head of Operations: [t-carter@audit-commission.gov.uk](mailto:t-carter@audit-commission.gov.uk).

Yours sincerely

Mike Thomas  
*District Auditor*

**cc** Peter Wallach, Head of Pensions  
Gerard Moore, Financial Controller  
Ann McLachlan, Chair of the Pensions Committee



## Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	November 2009
Interim audit memorandum if required	April 2010
Annual governance report	June 2010

## WIRRAL COUNCIL

## PENSIONS COMMITTEE

18 JUNE 2009

## REPORT OF THE DIRECTOR OF FINANCE

## STATEMENT OF RESPONSIBILITIES OF AUDITORS

### 1. EXECUTIVE SUMMARY

- 1.1. Attached is an updated version of the Audit Commission Statement of Responsibilities of Auditors and of Audited Bodies. The Audit Commission has requested that this document be presented to this Committee.

### 2. BACKGROUND

- 2.1. The Audit Commission Statement of Responsibilities of Auditors and of Audited Bodies has been updated. The new statement is effective from 1 April 2008 and will apply from the 2008/09 audits. It reflects changes in the auditing regime and clarifies the responsibilities of auditors and audited bodies in certain areas, including pension funds, charitable funds, data quality and the electronic publication of the financial statements.

### 3. FINANCIAL IMPLICATIONS

- 3.1. There are no financial implications.

### 4. STAFFING IMPLICATIONS

- 4.1. There are no staffing implications

### 5. EQUAL OPPORTUNITY IMPLICATIONS

- 5.1. There are no equal opportunity implications.

### 6. HUMAN RIGHTS IMPLICATIONS

- 6.1. There are no human rights implications.

### 7. LOCAL MEMBER SUPPORT IMPLICATIONS

- 7.1. There are no Member support implications.

### 8. LOCAL AGENDA 21 IMPLICATIONS

- 8.1. There are no agenda 21 implications.

9. **PLANNING IMPLICATIONS**

9.1. There are no planning implications.

10. **BACKGROUND PAPERS**

10.1. Statement of Responsibilities of Auditors and of Audited Bodies – Audit Commission - April 2008.

11. **RECOMMENDATION**

11.1 That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE.

FNCE/114/09

# Statement of responsibilities of auditors and of audited bodies

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we seek to ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



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## General introduction

- 1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.
- 2 The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).
- 3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.
- 4 Auditors may wish to refer to, and/or incorporate, this statement in audit planning documents, annual audit letters, reports and other audit outputs.

## Introduction to responsibilities

- 5 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 6 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published statements on internal control (NHS bodies) or annual governance statement (local government bodies).
- 7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals have specific responsibilities. NHS bodies have a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chairman and non-executive members are responsible for monitoring the executive management of the body and are responsible to the Secretary of State for the discharge of these responsibilities. In addition, there is a requirement for an audit committee, which contributes independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained. The chief executive is responsible to the board for the day-to-day management of the organisation and, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets.
- 8 Local government bodies have three designated statutory officers, each of whom has a specific role in relation to accountability and control. These are:
  - the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
  - the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
  - an officer with responsibility for the proper administration of their financial affairs.

- 9 In carrying out their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on important matters.
- 10 The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

## The audit of the financial statements

- 11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:
  - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements that present fairly (or, for NHS bodies and local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies.
- 12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements for each financial year that present fairly:
  - the financial transactions of its pension fund during the year; and
  - the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 13 The audited body is also responsible for preparing and publishing with its financial statements:
  - for health bodies and probation boards, a statement on internal control prepared in accordance with specified guidance; and
  - for local government bodies, an annual governance statement, prepared in accordance with proper practice set out in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication *Delivering Good Governance in Local Government: A Framework*, and related guidance.



- 14 In preparing their financial statements, audited bodies are responsible for:
- preparing realistic plans that include clear targets and achievable timetables;
  - assigning responsibilities clearly to staff with the appropriate expertise and experience;
  - providing necessary resource to enable delivery of the plan;
  - maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
  - ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
  - ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. At local government bodies, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.
- 15 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.
- 16 Auditors audit the financial statements and give their opinion, including:
- whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;  
whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
  - for certain bodies, on the regularity of their expenditure and income; and
  - for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.
- 17 In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

- 18 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:
- are free from material misstatement, whether caused by fraud or other irregularity or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- 19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.
- 20 Subject to the concept of materiality, auditors of specified NHS bodies and local probation boards also provide reasonable assurance on the regularity of expenditure and income. In giving such assurance, auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions or events that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters.
- 21 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
- 22 Auditors review whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They will also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.



- 23 In carrying out their work on the financial statements, auditors will:
- plan to complete work and meet agreed deadlines;  
maintain close liaison with the audited body; and
  - provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.
- 24 Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

## Electronic publication of the financial statements

- 25 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's written consent.
- 26 The audited body may also wish to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders and must ensure that these are presented accurately. The auditor's report on the financial statements distributed electronically should not be reproduced or referred to electronically without the auditor's prior written agreement.
- 27 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

## Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

- 28 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:
- establishing strategic and operational objectives;
  - determining policy and making decisions;
  - ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
  - ensuring compliance with established policies, procedures, laws and regulations;
  - identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
  - ensuring compliance with the general duty of best value, where applicable;
  - managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
  - monitoring and reviewing performance, including arrangements to ensure data quality; and
  - ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and for preventing and detecting fraud and corruption.
- 29 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control (NHS bodies) or annual governance statement (local government bodies).



- 30 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.
- 31 Auditors report annually their conclusion on those arrangements, having regard to the criteria specified by the Audit Commission and will report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether all aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively in practice.
- 32 In planning this work, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.
- 33 When assessing risk auditors consider:
- the relevance and significance of the potential business risks faced by all bodies of a particular type;
  - other risks that apply specifically to individual audited bodies;
  - the audited body's own assessment of the risks it faces; and
  - the arrangements put in place by the body to manage and address its risks.

- 34 In assessing risks auditors have regard to:
- evidence gained from previous audit work, including the response of the audited body to previous audit work;
  - the results of assessments of performance carried out by the Commission; the work of other statutory inspectorates; and relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.
- 35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.
- 36 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.
- 37 While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.
- 38 Auditors are specifically required to review audited bodies' arrangements for 'monitoring and reviewing performance, including arrangements to ensure data quality'<sup>1</sup>.

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<sup>1</sup> *Code of Audit Practice 2005*, section 3: Auditors' responsibilities in relation to the use of resources.



- 39 The responsibility for applying data quality standards, collecting data that are fit for purpose and where appropriate conform to prescribed definitions, and reporting performance information that is reliable and accurate, rests with audited bodies.
- 40 Before performance information is reported externally or submitted to external auditors for review, it should be subject to scrutiny and approval by senior management and those charged with governance.
- 41 In order to fulfil their responsibilities under the Code, auditors will review an audited body's corporate arrangements to secure the quality of its data. This review will be informed by other relevant work, for example any detailed reviews of the data supporting specific performance information.
- 42 The findings of the review of corporate arrangements for data quality will contribute to the auditor's conclusion under the Code of Audit Practice on the audited body's arrangements to secure value for money, in relation to the specific criterion on data quality. Where weaknesses have been identified in an audited body's arrangements for data quality, the auditor will consider the overall impact on the conclusion under the Code of Audit Practice, and where appropriate make recommendations to support improvement.
- 43 Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.
- 44 The reviews arising from national studies developed by the Commission, or in support of the Healthcare Commission's national work programme, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

## Specific powers and duties of auditors

- 45 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, in local government, electors' rights. Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

## Reporting the results of audit work

- 46 Auditors provide:

- an audit planning document;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and  
an annual audit letter

- 47 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act;
- any recommendations under section 11(3) of the Act (local government bodies);
- any referral to the Secretary of State under section 19 of the Act (NHS bodies) where the auditor considers that a decision by a body or officer has led to, or would lead to, unlawful expenditure, or that some action by a body or officer has been, or would be, unlawful and likely to cause a loss or deficiency; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant

bodies, or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

- 48 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.
- 49 Although annual audit letters and reports may be addressed to officers or members of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors' specific powers and duties in relation to matters relating to electors' rights in local government) or to third parties that choose to place reliance upon the reports from auditors.

## Ad hoc requests for auditors' views

- 50 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
  - are not financial or legal advisers to the audited body; and
  - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

51 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

## Access to information

- 52 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or voluntary sectors.
- 53 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation. Audited bodies wishing to disclose information obtained from an auditor are required by law to seek the auditor's consent to that disclosure.

## Grant claims and returns – certification

- 54 The Commission agrees to make certification arrangements in accordance with the framework set out in the separate *Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body. Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns and may ask the Commission to make arrangements for auditor certification of claims and returns. The Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before agreeing to make certification arrangements.

## Audit of charitable funds

- 55 This section is relevant to those charities to which the Audit Commission appoints auditors under s43A of the Charities Act 1993<sup>1</sup>.
- 56 Trustees of charitable funds subject to audit have a duty to prepare financial statements for each financial year which give a true and fair view of:
- the state of the charity's affairs at the end of the financial year; and
  - the incoming resources and the application of those resources by the charity for that period.
- 57 Trustees must ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – 'Accounting and Reporting by Charities'.
- 58 It is the duty of the auditor to report to the trustees whether the financial statements give a true and fair view and whether they have been prepared in accordance with the Charities Act 1993 and the Charity (Accounts and Reports) Regulations.
- 59 Auditors are also required to report immediately to the Charity Commissioners any matter which they have reasonable cause to believe is, or is likely to be, of material significance to the Commissioners' functions under s8 (general power to institute inquiries) or s18 (power to act for protection of charities) of the 1993 Act. Such matters may relate not only to the activities or affairs of the charity, but also to any institution or body corporate which is connected with the charity.
- 60 The audit fee is calculated on the basis that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

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<sup>1</sup> S43A of the Charities Act 1993 prescribes that all English NHS charities shall, at the election of the Audit Commission, be subject to an independent examination or audit. The Commission has decided that it will require an audit for all those charities above the threshold of £500,000, as defined in s43. Those below this threshold will be subject to an independent examination, unless the trustees elect for an audit. The auditor or examiner appointed must then follow the procedures required under s43(7)(b) of the Charities Act. Where an independent examination is carried out, the responsibilities of the examiner are more limited.

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

#### REPORT OF THE DIRECTOR OF FINANCE

##### INVESTMENT PERFORMANCE 2008 - 2009

###### 1. EXECUTIVE SUMMARY

- 1.1. This report outlines the investment performance of Merseyside Pension Fund for the year ended 31 March 2009 as reported by the WM Company.

###### 2. PERFORMANCE REVIEW

- 2.1. The Fund returned a negative 17.7 per cent in the financial year to the end of March 2009 compared to its bespoke benchmark return of -17.8 per cent , an outperformance of 0.1 per cent against benchmark.
- 2.2. Over the same period, the average return of all Local Authority Pension Funds based on the WM Local Authority universe of 90 funds was -19.2 per cent.
- 2.3. The financial year ending March 31 2009 witnessed an unprecedented downward spiral across the globe encompassing all asset classes. The near failure and rescue of high profile financial institutions worldwide exacerbated a credit crunch which spilled over into the real economy as the corporate sector struggled to raise bank finance. At the macro economy level, the major OECD economies fell into recession with significant downgrades in the outlook for GDP going forward
- 2.4. In an extremely challenging financial market environment, the relative performance of the Fund against its constituent benchmarks held up well. The one exception was the extremely disappointing performance of alternative assets which underperformed its benchmark by 18% and exerted a materially negative impact on aggregate Fund performance of 170bps (1.7%).
- 2.5. The performance of the Fund against its relevant benchmark and against price and earnings indices over 1, 3 and 5, year periods is tabulated below.

	1 Year	3 Year	5 Year	10 year
<b>MPF</b>	-17.7	-4.8	3.5	NA
<b>Benchmark *</b>	-17.8	-4.3	3.4	NA
<b>RPI</b>	0.9	3.1	3.0	NA
<b>Average Earnings</b>	3.3	3.6	4.0	NA

- 1, 3 & 5 year benchmarks = MPF bespoke.

**3. FINANCIAL IMPLICATIONS**

- 3.1. The Fund returned -17.7 per cent in 2008/09. The Fund declined in value by circa £800m over the financial year to 31 March 2009.

**4. STAFFING IMPLICATIONS**

- 4.1. There are no staffing implications in this report.

**5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. There are none arising directly from this report.

**6. HUMAN RIGHTS IMPLICATIONS**

- 6.1. There are none arising directly from this report.

**7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1. There are no specific implications arising from this report.

**8. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 8.1. There are no specific implications for any Member or Ward.

**9. LOCAL AGENDA 21 IMPLICATIONS**

- 9.1. There are no specific implications arising from this report.

**10. PLANNING IMPLICATIONS**

- 10.1. There are no specific implications arising from this report.

**11. BACKGROUND PAPERS**

- 11.1. This report is based upon an analysis by the WM Company.

**12. RECOMMENDATION**

- 12.1. That the Committee is requested to note the investment performance of the Fund in the year ended 31 March 2009.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/103/09

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

### REPORT OF THE DIRECTOR OF FINANCE

#### LGPS REFORM UPDATE

##### 1. EXECUTIVE SUMMARY

- 1.1. This report informs Members of progress with the production of regulations and other guidance by the Department for Communities and Local Government (DCLG) following the introduction of the revised LGPS on 1 April 2008.
- 1.2 Members are requested to approve the draft response to DCLG on Governance attached at appendix 2.

##### 2. BACKGROUND

- 2.1 The Pensions Committee last considered progress on implementing the new regulations as part of the reform of the LGPS, on 6 April 2009 (Minute 89 refers).

##### 2.2. Ill Health Retirement Regulations

- 2.2.1. As previously reported the Ill Health Monitoring Group set up by the DCLG has now requested further data on the experience of the new ill health regulations in practice from employers and administering authorities. The DCLG has circulated letters dated 6 May and 21 May 2009 to LGPS Pension Managers setting out new data requirements and a timetable for completion and submission of data to the Government Actuary's Department (GAD) as shown in the table below:

Rollout of report software to Pension Funds	31 May 2009
Reports to be run and sent to GAD	12 June 2009
Analysis to be completed by GAD	August 2009

- 2.2.2. DCLG has also asked individual employers to provide details of the total number of ill health capability dismissals from 1 October 2008 to 31 March 2009 inclusive and for Pension Funds to collate this data and submit it to DCLG by 30 June 2009.

##### 2.3. Amendment of Accounts and Audit Regulations 2003

- 2.3.1 The DCLG has issued a letter dated 30 March 2009 in connection with a consultation on proposed changes to the above regulations. The proposed changes contain a requirement to provide information on pension entitlement and compensation awards which may result in additional work for MPF.

2.3.2 A response to this consultation paper was agreed by the Leader of the Council under delegation.

#### **2.4. Government Actuary's Department (GAD) Guidance**

2.4.1 On 24 April 2009 DCLG issued further guidance dealing with the use of accumulated AVCs to provide additional pension under the Scheme and actuarial factors for incoming Cash Equivalent and Club Transfers from 1 October 2008.

#### **2.5. Stakeholders Participation and Involvement in the Governance of the LGPS**

2.5.1 The DCLG circulated a letter dated 13 May 2009 (Appendix 1 attached) following its preliminary analysis of Governance Compliance Statements submitted by Administering Authorities.

2.5.2. In overall terms compliance against the nine best practice principles set out in the Statutory Guidance in November 2008 was high. Nationally the number of pension fund authorities with no scheme member representation in their formal governance arrangements has fallen from 11 to just 3 funds, meaning that some 96% of Scheme authorities now have some level of scheme member representation.

2.5.3. The latest Governance Compliance Statement submitted by the Merseyside Pension Fund to the DCLG was approved by Committee on 6 April 2009 (Minute 90 refers) and confirms that MPF fully complies with all of the best practice standards set out by the DCLG.

2.6 The DCLG has invited comments on how best to further improve Scheme Governance in the interests of all stakeholders and a draft response is attached (at appendix 2) for Members approval. The closing date for comments on the proposals is 30 September 2009.

### **3. OTHER OUTSTANDING MATTERS**

#### **3.1. Pensions Administration Strategy Plan**

3.1.1 Work is currently underway on drawing up a draft Pensions Administration Strategy Plan to formalise administrative arrangements and service standards between the Pension Fund and participating employers. It is planned that MPF will consult with stakeholders on developing a Strategy Plan during the current year.

### **3.2. Cost Sharing Mechanism - The LGPS (Amendment) Regulations 2009**

- 3.2.1. The LGPS (Amendment) Regulations 2009 were laid before Parliament on 23 April 2009 and have effect from 1 April 2009.
- 3.2.2. They introduce a new regulation 36A into the Administration Regulations which requires each Pension Fund to supply actuarial data to enable the Secretary of State to create a national model fund in connection with future cost sharing.
- 3.2.3. Data covering the period 1 April 2007 to 31 March 2009 will be required to be supplied to the Government Actuary's Department (GAD) by 30 June 2009 and annually thereafter. In its letter dated 23 April 2009 the DCLG confirmed that it was working with GAD refining the data specification and that "this would be formally sent out in the next few days". MPF contacted all employers to remind them of the need to submit year end information promptly.
- 3.2.4. As the promised data specification had not been issued by 22 May 2009 MPF contacted DCLG to ask when it would be issued. DCLG replied that it was awaiting feedback/comments from one of the three computer software providers on the data specification prepared by the GAD before producing the final version which would be issued as soon as possible.
- 3.2.5. Meetings of the LGPS Policy Review Group are still continuing, to discuss various issues including agreement on the assumptions to be used and details of how the cost sharing mechanism will operate.

### **3.3. 85 Year Rule Protection**

- 3.3.1 The final decision on the possible extension of full "85 year Rule" protection to those members who would satisfy the requirements by 31 March 2020 rather than 31 March 2016 is still awaited from DCLG.

### **3.4. Councillors Pensions**

- 3.4.1 The 2008 Scheme regulations do not include councillors' pensions and provision remains subject to the 1997 Regulations.
- 3.4.2. It was expected that the Government would implement recommendations from the Councillors Commission report on councillors remuneration but it has been reported recently that the Government has decided not to proceed with a draft Community Empowerment Bill at this time.
- 3.4.3. The Pay and Pensions division of the DCLG has confirmed that it intends to carry out consultation later this year on proposals for future pension arrangements for elected members but no nothing further has been announced.

**4. ADMITTED BODY STATUS REVIEW**

- 4.1. Final proposals are still to be formulated by DCLG which will be the subject of statutory consultation in advance of changes to the regulations.

**5. FINANCIAL IMPLICATIONS**

- 5.1 There are none directly arising from this report.
- 5.2 A number of the outstanding issues referred to in this report may well have implications on future funding, including future ill health costs, the final costs of “85 Year Rule” protection depending on whether full protection is extended to 2020 and actual yields from employee contributions.

**6. STAFFING IMPLICATIONS**

- 6.1. There are none directly arising from this report.

**7. EQUAL OPPORTUNITY IMPLICATIONS**

- 7.1. There are none arising from this report.

**8. COMMUNITY SAFETY IMPLICATIONS**

- 8.1. There are none arising from this report.

**9. HUMAN RIGHTS IMPLICATIONS**

- 9.1. There are none arising from this report.

**10. LOCAL AGENDA 21 IMPLICATIONS**

- 10.1. There are none arising from this report.

**11. PLANNING IMPLICATIONS**

- 11.1. There are none arising from this report.

**12. MEMBER SUPPORT IMPLICATIONS**

- 12.1. There are none arising from this report.

**13. BACKGROUND PAPERS**

- 13.1. DCLG letters dated 30 March, 23 April, 6 and 21 May 2009.

14. **RECOMMENDATION**

14.1 That Members approve the draft response to DCLG on Scheme Governance.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/102/09

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LGPS interests in England and Wales

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13 May 2009

**Dear Colleague,**

## **LOCAL GOVERNMENT PENSION SCHEME**

1. Local Government Pension Scheme interests in England and Wales are familiar with the consistent approach taken by the Government for some time on the question of representation and Scheme member involvement in and around the decision cycle of the Scheme's operation, and particularly the governance of its pension funds.

### **Background**

2. The management and investment of the Scheme's pension funds' assets remains at the highest standard, both in terms of overall legal compliance with the extant regulatory framework and with published departmental statutory guidance. To maintain that important high, transparent standard, Ministers have requested that informal soundings now be taken with Scheme interests to consider the scope for any further initiatives which could reinforce both the important progress which has already been made on extending representation and standards of governance, and whether and how best to extend it.

3. This letter, therefore, reminds Local Government Pension Scheme administering authorities in England and Wales of:-

- the current statutory position regarding their responsibilities for the management and investment of their pension funds (paragraphs 5 - 8);
- the extent and purpose of existing statutory guidance, including its principal messages (paragraphs 9 – 10),
- the current extent of compliance with the extant guidance issued in October 2008, (paragraphs 11 - 14); and

**requests that authorities, in continuing to act responsibly and constructively within the above framework, consider the best means of extending their already high levels of member and other non-elected stakeholders' participation and active involvement in the governance of the existing regulatory framework.**

4. Responses are requested no later than 30 September 2009.

#### **Current statutory framework and responses from administering authorities**

5. Elected councillors have comprehensive legal responsibilities for the prudent and effective stewardship of LGPS funds and, in more general terms, have a clear fiduciary duty regarding the performance of these functions. Although there is no one single model in operation throughout the 89 LGPS fund authorities in England and Wales, most funds are managed by a formal committee representing the political balance of that particular administering authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their pension investment functions to the Council, committees, sub-committees or officers, but there are a small number of LGPS fund authorities which are legally not local authorities and who therefore have their own arrangements.

6. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension committees to include representatives from district councils as voting members on the committee, and also to include trade union and other lay member representatives, with or without voting rights, provided that they are eligible to be committee members. The eligibility rules are set out in section 15 of the Local Government and Housing Act 1989.

7. Although administering authorities with responsibilities for LGPS pension funds are able to delegate functions to individual officers of the authority, to sub or joint – committees, or to authorised external fund managers, it is the case that policy and final investment decisions and general stewardship of the fund sit with the main pensions or investment committee. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), decision-making committees must have regard to a wide range of statutory responsibilities, including:-
- except where investments are managed in-house, the duty to appoint one or more authorised investment managers to manage and invest monies on their benefit;
  - to take proper advice in making investment decisions;
  - to invest monies in a wide variety of investments;
  - to have regard to the suitability of investments;
  - to ensure that investments comply with the authority’s Statement of Investment Principles (SIP);
  - to monitor and review external investment manager’s performance;
  - to ensure that investments fall within the prescribed limits; and
  - to prepare, publish and maintain the authority’s SIP (including Myners’ compliance statement); Funding Strategy Statements (FSS); Pension Fund Annual Report (with effect from December 2009); Communications Policy Statement and Governance Compliance Statement.
8. In addition to these core statutory responsibilities, LGPS pension fund administering authorities are also subject to general local government law on the way in which they conduct their affairs; to manage potential areas of conflict; and to exercise their duty of care to those who bear the financial and investment risks of the Scheme. Pension fund authorities also bear a responsibility, on behalf of scheme members and beneficiaries, to ensure that the Scheme is managed effectively and efficiently on their behalf. In more general terms, authorities are responsible for a wide range of important decisions relating to the management and actuarial valuation of LGPS funds under part 4 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

### **The Extent and Purpose of Governance Statutory Guidance**

9. Following a previous governance initiative in 2006, statutory guidance was issued by the department to administering authorities and other stakeholders in November 2008 to assist authorities in the preparation and publication of their Governance Compliance Statements, as required by regulation 31 of The Local Government Pension Scheme (Administration) Regulations 2008 (as amended). The purpose of the exercise was to assess the extent to which each authorities’ governance arrangements measured up to best practice standards and to identify those areas where further work was necessary to ensure consistent best practice across all 89 pension fund authorities in England and Wales.

10. The best practice principles on governance, against which, authorities have now been required to measure their compliance. In particular, administering authorities are now required to measure their compliance are:-
- Structure;
  - Committee membership and representation;
  - Selection and role of lay members;
  - Training/facility time/expenses;
  - Meetings (frequency/quorum);
  - Access;
  - Scope; and
  - Publicity.

### **Governance compliance results**

11. The statutory arrangements regarding compliance measurement of governance policies and arrangements against a clear set of established best practice principles its has two purposes. First, to send out a clear policy signal as to the standard of governance expected of Scheme pension fund administering authorities and second, to identify any specific areas of weakness in specific authorities where further action may be necessary to ensure consistency across the Scheme as a whole.
12. The statements returned to the Department are comprehensive and detailed and it will be another month or so before the full results and outcomes will be available. In the meantime, it is hoped that the following summary, based on an initial review of all 89 statements, will help recipients of this letter to prepare their responses.
13. In overall terms, compliance against the nine best practice principles was significantly high, with 11 out of the 17 individual marking points scoring 80%, or higher. Particularly strong areas included Structure; Representation and Selection and the Role of Lay Members, with very welcome significant progress being made since the 2006 survey (see Annex B of the CLG Statutory Guidance issued in November 2008 in “What’s New 2008” section at <http://ww.xoq83.dial.pipex.com>). Since then, the number of pension fund authorities with no scheme member representation in their formal governance arrangements has fallen from 11 to just 3 meaning that some 96% of Scheme authorities now have some level of representation. This is a clear indication of substantive progress and LGPS administering authorities can be congratulated on the steps taken.
14. However, the picture is less positive when Training, Facility Time and Expenses are considered. Although the evidence suggests that some progress is being made in this area, there are indications that there remains a lack of clarity about where responsibility, in particular for the training of lay members, rests and a belief that formal training is regarded as a matter for elected members only. In other cases, attendance at committees is often hindered by the absence of any clear policy regarding the award of facility time, or the payment of expenses. The general conclusion to emerge is that whilst significant progress has been made in recent years to see representative governance structures in place, there is still work to be done on raising the quality of some of the associated arrangements.

## Next steps challenge

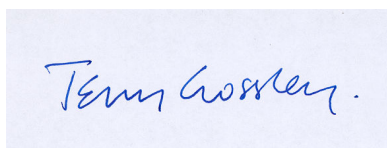
15. It would be helpful therefore, if consultees could specifically consider, what steps could be taken to achieve consistency across the Scheme to match the standards set out in the statutory guidance, especially regarding training and facility time for **all** those involved in the democratic process around LGPS stewardship. Capacity building for existing involved councillors and others is clearly important, and so too is the need to expressly extend the knowledge base of new councillor members of fund committees **as well as** existing new non-elected **and** committee participants. Several training events are available. For example, the LGE provides specific events of high quality and a number of very useful pension conferences also provide very good introductory and advanced material for elected members and other members of investment committees.
16. Part 2/F of the Department's 2008 statutory guidance sets out the need for pension fund authorities to provide some alternative method of communication and representation in those instances where scheme members were not represented on their main committee, sub-committee or advisory panel. A small number of administering authorities were unable to meet this aim. More remains to be done, therefore, to ensure that key stakeholders can be much more actively involved in the wider governance framework and particularly, where a place in the committee-structure itself has not been made available. There are some first rate local examples of such initiatives available and administering authorities may wish to consider these if they decide to explore the merits of various local options. This is a real opportunity for the well established practice of most Scheme authorities to be logically extended to the whole of the LGPS, initially at least on a voluntarily basis.
17. There is clear emerging evidence now that there should be a focus much more towards the quality of engagement with scheme member representatives and other lay members. This should help to extend the opportunities for real stakeholder involvement and, where there is already a good degree of active involvement, even to improve current standards.
18. The various surveys undertaken by the Department demonstrate that significant progress has been made in getting the right structures in place and, in the overwhelming majority of cases, ensuring that scheme members are able to take a full and active part in proceedings. This involvement is essential and to be welcomed. However, several specific areas that can be extended, as described above, have been identified. The Department now wishes to explore with Scheme interests the most appropriate ways of achieving improvements in those areas quickly and effectively.
19. There is a real opportunity now to encourage a better understanding of the Scheme among its membership, to demystify some of its structures and to explain to Scheme members and their representatives the key tenets of the Scheme, its funding, costs and benefit structure. The Scheme's operation, including aspects such as its new cost-sharing mechanism, all need very careful understanding so there are wider than simply investment issues to be brought forward.

20. Recipients in considering their response may wish to take account of the publication of the latest set of Myners' investment principles published by the government in November 2008 when considering and framing their response. The reports' principles are now being assessed by the Department to see whether and how far they need to be revised to reflect the special circumstances of the LGPS; it is hoped draft details will be published shortly.
21. **Your views are now invited on how best to take forward the next stage of work on Scheme governance designed to extend the current high standards of governance and involvement and to see where and how future improvements can be made in the interests of all stakeholders.**

## **Responses**

22. Consultees are invited, therefore, to respond by 30 September 2009 with their assessments of any further opportunities to extend current levels of participatory involvement in LGPS governance. Ministers will wish subsequently to consider how best to translate any measures and proposals for best practice and experience into either a new regulatory format, or one based on further guidance – statutory, or otherwise.
23. The Department remains very willing to discuss specific proposals with stakeholders within the timeframe of this consultation exercise. In addition, it is intended as a stimulus to future action to contact selected Scheme administering authorities to discuss their current and future policy, and how this is locally to be managed in those authorities.
24. Please send all responses to Richard McDonagh here using the following contact details: Richard McDonagh, WPP4, Zone 5/F6, Communities and Local Government, Eland House, Bressenden Place, London SW1E 5DU, or via email at [richard.mcdonagh@communities.gsi.gov.uk](mailto:richard.mcdonagh@communities.gsi.gov.uk) , telephone number 020 7944 4730.

Yours sincerely,

A rectangular box containing a handwritten signature in blue ink that reads "TBJ Crossley".

TBJ CROSSLEY

Mr Richard McDonagh  
WPP4,  
Zone 5/F6,  
Communities and Local Government  
Eland House,  
Bressenden Place,  
London, SW1E 5DU

Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 19 June 2009

## **APPENDIX 2**

Dear Richard,

### **LOCAL GOVERNMENT PENSION SCHEME - GOVERNANCE COMPLIANCE**

I refer to the letter dated 13 May 2009 from Terry Crossley, concerning stakeholders' participation and active involvement in the governance of the LGPS.

The Merseyside Pension Fund administered by Wirral Council is supportive of the Department's aim to extend further the existing high levels of member and non-elected stakeholders' participation and active involvement in the governance of the Scheme.

The Fund has already confirmed that it believes that it complies fully with all of the best practice principles on scheme governance issued by the Department last year.

I am pleased to be able to report that the Fund achieved fourth place in the 2009 review of UK major occupational pension funds carried out by FairPensions a registered charity supported by a number of leading registered charities and trade unions. Having regard to its policy and practice on responsible investment and transparency the Merseyside Fund achieved the highest ranking of any of the local authority funds in England and Wales.

The Fund will regularly review its Governance arrangements and Communications Policy including its website to seek to improve stakeholder involvement. It may be the case however that the Department may need to take further legislative steps to force the very small number of Funds that have so far failed to do so to comply with aspects of the best practice guidelines.

Please do not hesitate to contact me if you require any further information or assistance.

Yours sincerely

**Director of Finance**

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

#### REPORT OF THE DIRECTOR OF FINANCE

##### FAIR PENSIONS 2008/09 RESPONSIBLE INVESTMENT SURVEY

### 1. EXECUTIVE SUMMARY

- 1.1. This report draws to the attention of the Pensions Committee the result of a national survey of responsible investment practice, wherein Merseyside Pension Fund has been ranked 4th out of its peer group of 30 leading UK occupational pension schemes (2nd of 5 LGPS funds in the survey).

### 2. THE SURVEY RESULTS

- 2.1. Fair Pensions is a registered charity that aims to persuade UK pension funds and fund managers to adopt an effective responsible investment capability, and to monitor and manage environmental, social and governance risks.
- 2.2. Fair Pensions began their annual survey of the largest 20 UK pension schemes in 2007 and expanded the cohort to 30 in 2009, consequently this is the first year of inclusion for MPF.
- 2.3. The survey assessed the responsible investment policy in terms of its objectives, its implementation and its transparency to stakeholders. The survey report comments,

*This is the first year we have included the Merseyside Pension Fund in our survey, and it is to be commended, showing a well thought through approach on many of the key areas of RI policy, implementation and monitoring.*

- 2.4. A number of recommendations are made in the survey report, principally concerning the improvement of transparency. Officers are working to address this as part of the continuing development of the communication strategy.

### 3. FINANCIAL IMPLICATIONS

- 3.1. There are no financial implications arising from this report.

### 4. STAFFING IMPLICATIONS

- 4.1. There are no staffing implications in this report.

**5. EQUAL OPPORTUNITY IMPLICATIONS**

5.1. There are none arising directly from this report.

**7. COMMUNITY SAFETY IMPLICATIONS**

7.1. There are no specific implications arising from this report.

**8. LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications for any Member or Ward.

**9. LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are no specific implications arising from this report.

**10. PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

**11. BACKGROUND PAPERS**

11.1. 'Responsible Pensions? UK Occupational Schemes' Responsible Investment Performance 2009', Fair Pensions (<http://www.fairpensions.org.uk/>)

**12. RECOMMENDATION**

12.1. That Committee notes the recognition of the Merseyside Pension Fund responsible investment policy.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/112/09

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

### REPORT OF THE DIRECTOR OF FINANCE

#### CASH MANAGEMENT

##### 1. EXECUTIVE SUMMARY

1.1 This report requests the Committee to approve a revision to the cash management policy agreed on 14 January 2009.

##### 2. BACKGROUND

2.1 A Treasury Management Policy report is presented to Committee each January to set out the policies, objectives, practices and investment limits to be followed during the following financial year. The Pensions Committee on 14 January 2009 agreed the arrangements for 2009-2010.

2.2 That report included the list of counterparties and their limits. For the custodian, State Street, the limit is £30m. Under exceptional circumstances, e.g. during transitional arrangements, these limits may be exceeded for a limited period with prior permission.

2.3 At the time of approving that policy, MPF was in the process of appointing five new external managers, with portfolios of some £100m each. During this transitional period, and subsequently, the £30m limit with the custodian has been exceeded.

2.4. As these new mandates are unconstrained, the fund managers are able to withhold funds from the market in appropriate circumstances; and in some cases up to 10% of a portfolio has been held in cash. As a result, these new asset managers are depositing short term cash funds with the custodian, State Street. Such investment decisions are made by the managers, and do not require approval from MPF. Hence it is necessary to adjust the cash management policy to reflect this.

2.5. It is therefore proposed that the existing £30m limit be earmarked for internal cash management, and that a further £30m limit be set for external managers.

2.6 Due to the nature of these mandates, monitoring of this additional limit for external managers will need to be done retrospectively. MPF will liaise with the external managers such that spare cash can be directly deposited with other financial institutions when the £30m limit is approached.

2.7 Details of the security of cash funds with the custodian were included in the report to the Investment Monitoring Working Party on 26 February 2009.

**3. FINANCIAL IMPLICATIONS**

3.1 There are no budget implications arising from the proposed change of policy.

**4. STAFFING IMPLICATIONS**

4.1 There are no staffing implications in this report.

**5. EQUAL OPPORTUNITY IMPLICATIONS**

5.1 There are none arising directly from this report.

**6. COMMUNITY SAFETY IMPLICATIONS**

6.1 There are no specific implications for any Member or Ward.

**7. LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1 There are none arising directly from this report.

**8 LOCAL AGENDA 21 IMPLICATIONS**

8.1 There are none arising from this report.

**9 PLANNING IMPLICATIONS**

9.1 There are none arising from this report

**10. BACKGROUND PAPERS**

10.1 None.

**11 RECOMMENDATION**

11.1 That Pensions Committee approves the proposed change in Treasury Management policy.

IAN COLEMAN  
DIRECTOR OF FINANCE

## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

#### **REPORT OF THE DIRECTOR OF FINANCE**

#### **REPRESENTATION ON OUTSIDE BODIES**

##### **1. EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to request the Committee to review positions held by Elected Members on external bodies on behalf of Merseyside Pension Fund.

##### **2. BACKGROUND**

- 2.1. Members of this Committee on occasion represent MPF on external collaborative bodies which promote best practice in particular areas of pensions administration and investment.
- 2.2. Previously attendance on these bodies has been treated as an approved duty and any expenditure incurred met from the MPF budget.

##### **3. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)**

- 3.1. Councillor Ann McLachlan served as an Executive Member of the Local Authority Pension Fund Forum during 2008-09.
- 3.2. As a result of being an Executive Member of LAPFF, Councillor Ann McLachlan has also represented MPF on the Institutional Investor Group on Climate Change (IIGCC).

##### **4. FINANCIAL IMPLICATIONS**

- 4.1. There are none arising directly from this report.

##### **5. STAFFING IMPLICATIONS**

- 5.1. There are none arising directly from this report.

##### **6. EQUAL OPPORTUNITY IMPLICATIONS**

- 6.1. There are none arising directly from this report.

##### **7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1. There are no specific implications arising from this report.

**8. LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications for any Member or Ward.

**9. LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are no specific implications arising from this report.

**10. PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

**11. BACKGROUND PAPERS**

11.1. None used in the preparation of this report.

**12. RECOMMENDATION**

12.1 That Members nominate Councillor Ann McLachlan for election to the Executive of LAPFF for 2009-10.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/99/09

## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

#### **REPORT OF THE DIRECTOR OF FINANCE**

##### **LOCAL GOVERNMENT CHRONICLE INVESTMENT CONFERENCE**

#### **1. EXECUTIVE SUMMARY**

- 1.1. This report requests the Committee to consider if it wishes to be represented at the Local Government Chronicle (LGC) Investment Conference to be held in Newport on 9 to 11 September 2009.

#### **2. THE CONFERENCE**

- 2.1. The Conference is scheduled for 9 to 11 September 2009. It is likely that delegates would require overnight stays in Newport for 9 and 10 September.
- 2.2. The attendance at such seminars/conferences has traditionally been in the ratio 1:1:1. In recent years the independent advisers have also attended the conference and I would recommend that this decision is continued.
- 2.3. Conference costs including accommodation are £999 plus VAT per person, with travel an additional cost.

#### **3. FINANCIAL IMPLICATIONS**

- 3.1. The cost of approximately £7,000 for three Members two independent advisers and one officer can be met from the existing budget.

#### **4. STAFFING IMPLICATIONS**

- 4.1. There are no staffing implications in this report.

#### **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. There are none arising directly from this report.

#### **7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1. There are no specific implications arising from this report.

#### **8. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 8.1. There are no specific implications for any Member or Ward.

9. **LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are no specific implications arising from this report.

10. **PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

11. **BACKGROUND PAPERS**

11.1. None used in the preparation of this report.

12. **RECOMMENDATIONS**

12.1. That Committee is requested to consider if it wishes to send a delegation to attend this conference, and if so, to determine the number and allocation of places.

12.2. That attendance be referred to the Cabinet for approval of duty.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/98/09



## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

#### **REPORT OF THE DIRECTOR OF FINANCE**

##### **JULY TRAINING EVENT**

###### **1. EXECUTIVE SUMMARY**

- 1.1 This paper reminds Members of arrangements for a training event at the Cunard Building on 2 July 2009.

###### **2. BACKGROUND**

- 2.1 On 6 April 2009 Pensions Committee were advised of the first of two internal training events for the year which has been arranged for 2 July 2009.

###### **3. THE TRAINING DAY**

- 3.1 The agenda is attached as Appendix 1 to this report. Invitations have been extended to other neighboring local authorities.
- 3.2 As requested at a previous Committee, the focus of the day will be on responsible investment issues. There will be a presentation from Alan MacDougall of PIRC, the corporate governance and proxy voting consultants, as well as being the research and engagement partner of the Local Authority Pension Fund Forum. Patrick Daniels, of US law firm Coughlin Stoia LLP, will present on securities fraud class action litigation and wider developments in corporate governance in the USA. There will be opportunity for Members to engage in topical discussion of this broad subject which, in view of the recent turmoil in global financial markets, is of increasing importance to pension funds.

###### **4. FINANCIAL AND STAFFING IMPLICATIONS**

- 4.1 The costs of the programme are included in the training budget.

###### **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. There are none arising from this report.

###### **6. COMMUNITY SAFETY IMPLICATIONS**

- 6.1. There are none arising from this report.

**7. LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1. This report has no particular implications for any Members or wards.

**8. LOCAL AGENDA 21 IMPLICATIONS**

8.1. There are none arising from this report.

**9. PLANNING IMPLICATIONS**

9.1. There are none arising from this report.

**10. BACKGROUND PAPERS**

10.1 None.

**11. RECOMMENDATION**

11.1 That Members attend the training day.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/97/09

## **APPENDIX 1**

### **MPF - Internal Training Day**

Cunard Building

**2 July 2009**

#### **Agenda**

10.00 Coffee and registration

10.15 The role of the responsible investor: voting and engagement strategies  
- *Alan MacDougall, Managing Director of Pensions & Investment Research Consultants Ltd*

11.15 Coffee break

11.30 Holding company management to account: the US approach – *Patrick Daniels, Senior Partner at Coughlin Stoia Geller Rudman & Robbins LLP*

12.15 Break

12.30 Moderated panel discussion of responsible investment themes – *Alan MacDougall, Patrick Daniels, Owen Thorne (MPF), Councillor Ann MacLachlan (moderator)*

13.00 Lunch

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## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

#### **REPORT OF THE DIRECTOR OF FINANCE**

#### **MAJOR REFURBISHMENT AND REPAIRS AT CUNARD BUILDING, LIVERPOOL**

### **1 EXECUTIVE SUMMARY**

The purpose of this report is to advise Members of a major review of the Cunard Building, Liverpool, covering external works and communal areas to be implemented over a period of three years.

### **2. BACKGROUND**

- 2.1 The Cunard Building was completed in 1917 and has been refurbished over time to cater for changing occupier and market requirements. The development of Grosvenor Liverpool One and other new offices built north of Tithebarn Street has increased the competition for quality space.
- 2.2 Current occupiers may be tempted to find alternative space providing modern needs for business and therefore a strategy has been prepared to ensure the retention of existing tenants and at the same time attract new tenants for vacant space.
- 2.3 The water front continues to attract strong interest with the redevelopment of Mann Island pre-let to Mersey Travel.
- 2.4 The Port of Liverpool Building and Royal Liver Building have both recently undergone major refurbishment works. Mindful of this and to ensure the Cunard Building maximises its opportunity to seek new and retain existing tenants, refurbishment of the building is required.
- 2.5 As part of a marketing strategy a full survey of the building has been undertaken by CB Richard Ellis, including consultation with the existing tenants.
- 2.6 Sections of the external stone work are falling off, representing a potential health and safety threat, therefore making repairs essential to this historic building.
- 2.7 The windows suffer from heat loss, draught and noise penetration and require general repair and maintenance.

- 2.8 The glazed brick finishes to two light wells require attention as water ingress is occurring caused by the lintels above the windows deteriorating due to carbonation of the concrete combined with chloride.

### **3. PROPOSED CHANGES**

- 3.1 Refurbishment over a three year period is to include all communal areas and external works to the building, redundant toilet areas, light well structural repairs, overhauling each window to reduce heat loss and reduce noise, repair to external stone work and balconies and external stone cleaning.
- 3.2 Changes to be made to the common areas formed part of the consultation process with the agreement of the existing tenants.
- 3.3 Over and above the works already described, a further programme of refurbishment works in void areas will be required as and when the market begins to improve. This would be delayed until the void areas already refurbished have been let.

### **4 FINANCIAL IMPLICATIONS**

- 4.1 The estimated total costs for both the common areas and external works are £4.02m plus VAT.
- 4.2 The RICS service charge code encourages Landlords not to include improvements which enhance value at the expense of the tenant. Hence the external works will be funded by MPF at an estimated cost of £1.85m plus VAT.
- 4.3 The work on the common areas, which will directly benefit tenants, will be recovered via the service charge, at an estimated cost of £2.17m plus VAT.
- 4.4 Improving the building to the standard required for tenants will encourage occupancy in a prestigious building to provide increased income and thus increase the value of the building.
- 4.5 Over and above the estimated costs of £4.02m plus VAT currently being reported, the estimated additional refurbishment cost in respect of void office space is a further £3.03m plus VAT. A report will be brought to the Pensions Committee at the appropriate time.

### **5. STAFFING IMPLICATIONS**

- 5.1. There are none arising directly from this report.

### **6. EQUAL OPPORTUNITY IMPLICATIONS**

- 6.1. There are none arising directly from this report.

**7. COMMUNITY SAFETY IMPLICATIONS**

7.1. There are no specific implications arising from this report.

**8. LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications for any Member or Ward.

**9. LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are no specific implications arising from this report.

**10. PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

**11. BACKGROUND PAPERS**

11.1. CBRE Report December 2008 with amendments 27 April 2009, 5 May 2009 and 22 May 2009

**12. RECOMMENDATIONS**

12.1. That Pensions Committee agree to the proposed three year phased programme of refurbishment and repair at the Cunard Building, Liverpool at an estimated cost of £4.02m plus VAT.

12.2. That Pensions Committee note that a future paper will be presented in due course for further refurbishment at the Cunard Building.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/107/09

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## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

#### **REPORT OF THE DIRECTOR OF FINANCE**

#### **REFURBISHMENT AT CROMWELL HOUSE, HOOK, HAMPSHIRE**

### **1 EXECUTIVE SUMMARY**

The purpose of this report is to advise Members of a comprehensive refurbishment programme at Cromwell House, Hook, Hampshire.

### **2. BACKGROUND**

- 2.1 Cromwell House is located on Bartley Wood Business Park and is a self-contained office with 20-25,000 sq.ft. available over three floors. Occupiers in the area include Serco, Virgin Media BMW and Lenovo.
- 2.2 The existing two tenants with three leases due to expire on 24 October 2009 have confirmed they do not intend to renew. Neither tenant is in occupation.
- 2.3 There are however two sub-tenants in occupation, who have indicated that, under the current standards of the building, they would only commit to extend their occupation at a considerably reduced rent.
- 2.4 The building was built in the late 1980's and requires upgrading to current occupier standard to compete with other premises in the local area.
- 2.5 The heating and ventilation system is considered to have reached the end of its useful life and needs to be replaced.
- 2.6 The building is underperforming as an investment due to the imminent lease expiries, and action needs to be taken in order to enhance the letting prospects, and the value of the freehold interest.

### **3. PROPOSED CHANGES**

- 3.1 Undertake a complete refurbishment of the building to include heating, ventilation and air conditioning systems to be stripped out and replaced with new equipment. Refurbishment of the individual floors as well as the internal common parts to include lifts, staircases and WC's. Undertake works to the exterior to modernise the general appearance.
- 3.2 These changes would enable the accommodation to be let on acceptable lease terms to a good quality tenant with minimum delay
- 3.3 Improving the condition of the building will ensure MPF has met environmental and efficiency ratings required which many tenants consider an important feature when considering occupation.
- 3.4 Procurement of the necessary works will comply with Council procedures and tender reports will be brought appropriately to this Committee.

### **4 FINANCIAL IMPLICATIONS**

- 4.1 The estimated refurbishment costs are £1,127,000 plus VAT, which would be met by MPF.
- 4.2 Improving the building to the standard required for tenants requiring long leases increases the valuation of the building.

### **5. STAFFING IMPLICATIONS**

- 5.1. There are none arising directly from this report.

### **6. EQUAL OPPORTUNITY IMPLICATIONS**

- 6.1. There are none arising directly from this report.

### **7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1. There are no specific implications arising from this report.

### **8. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 8.1. There are no specific implications for any Member or Ward.

### **9. LOCAL AGENDA 21 IMPLICATIONS**

- 9.1. There are no specific implications arising from this report.

**10. PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

**11. BACKGROUND PAPERS**

11.1. CBRE Tender Report and Analysis 21 May 2009

**12. RECOMMENDATION**

12.1. That the Pensions Committee agree to the proposed refurbishment of Cromwell House, Hook, Hampshire.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/110/09

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 JUNE 2009

### REPORT OF THE DIRECTOR OF FINANCE

#### CUSTODIAN SERVICES

##### 1. EXECUTIVE SUMMARY

- 1.1 This report sets out the functions performed by the Global Custodian, recommends the take up of optional years within the existing contract, and proposes the use of a custodian monitoring service.

##### 2. ROLE OF GLOBAL CUSTODIAN

- 2.1 Custodians hold a range of assets on behalf of their customers. Institutional investors, money managers and broker/dealers rely on custodians and other market participants for the efficient handling of their worldwide securities portfolios which is complicated by differing tax legislation, regulatory frameworks and time zones.
- 2.2 Custodians effect settlements of trades, i.e. completion of a transaction, whereby the seller transfers securities and financial instruments to the buyer, and the buyer transfers money to the seller.
- 2.3 Other mainstream tasks include:
- Collection of income due (dividends and interest due)
  - Application to reduced rates of withholding tax at source and reclaiming withheld taxes retrospectively
  - Notification and effecting corporate actions, e.g. rights issues, takeovers, bonus issues
- 2.4 Over and above these core services, custodians also offer other services. Examples which MPF purchases include investment accounting and securities lending. In addition, the custodian can provide an independent valuation to provide a cross check on the valuations provided by the asset managers.
- 2.5 In recent years there has been significant consolidation in the global custodian industry. As a result, prices of core custody services have reduced, as greater economies of scale are being achieved.
- 2.6 Security of assets held by the global custodian on behalf of MPF was set out in a report to the Investment Monitoring Working Party on 25 February 2009.

### **3. OPTION OF AN IN HOUSE CUSTODIAN FUNCTION**

- 3.1 It is very rare for a local government pension fund to undertake its own custodianship. I am aware of only one fund which undertakes custody for its internally managed UK equities and UK bonds. As the MPF bond portfolios are externally managed in pooled vehicles, an in-house custody function could not apply to bonds. Unit charges (custody costs, transaction costs) for UK equities are low, as State Street acts as its own sub-custodian in the UK market.
- 3.2 With limited activity levels, MPF would need to gear up staffing levels and undertake extensive training, yet would not be able to enjoy the economies of scale which accrue to global custodians. I consider that the associated risks in establishing an in-house custody function for internal UK equity portfolio (e.g. managing market failure during contractual settlement deadlines, limited experiences of problem solving due to small volumes, potential loss of key staff, possible lack of staff cover) would outweigh any potential savings.

### **4. SECURITIES LENDING**

- 4.1 MPF participates in a securities lending programme for its segregated holdings. Income is received from borrowers who pay a fee. Such income accrues both to the custodian (from which the costs are met) and to MPF on a negotiated fee split basis. Income received by MPF from securities lending may, in certain years, exceed the total expenditure on custodian costs.

### **5. CONTRACT WITH STATE STREET**

- 5.1 The current five year contract was originally intended to run from October 2004 to September 2009, with an optional extension available of up to two years. The tender had an indicative value of £2.6m. However, due to due diligence and contract clarifications, the transfer from the previous custodian, the Bank of New York, to State Street was delayed until April 2005.
- 5.2 I wish to take up the option of extending the contract to September 2011. State Street has informally indicated their willingness to accept such an extension within the current price structure.
- 5.3 I would therefore in Autumn 2010 initiate a procurement process for re-tendering custodian services for the period October 2011 to September 2016.

## 6. CUSTODIAN MONITORING SERVICES

- 6.1 The recent turbulence in investment banking and the financial sector generally has increased both the awareness and the impact of the different risks associated with the investment industry. The heightened market volatility not only increases execution risk but also raises operational risk, as the potential cost of correcting mistakes is much higher in volatile markets.
- 6.2 Since the inception of the current contract, MPF has significantly increased the number of segregated mandates, reduced the scale of pooled funds, and also made additional investments in emerging markets, which involve higher custody and transaction costs. In addition, MPF has subscribed to the State Street investment accounting reporting system. As a consequence, the total monthly costs are double the initial 2005 levels due to this increased and diversified activity.
- 6.3 Custodian monitoring can involve seeking external advice as part of the custodian selection process. It would provide an informed view on the financial stability of the different custodians, ensuring MPF obtained a firm understanding of the fundamentals of each potential custodian. This can include advice on current performance levels of different custodians, current market level of custody and transaction fees, current market rates for cash deposits and percentage splits of securities lending markets. It could also cover a review of the draft contract of the preferred supplier, a course of action undertaken by MPF as part of the 2004/05 custodian procurement process..
- 6.4. In addition, periodic monitoring of performance can cover the following:
- Failed trades: number, how long outstanding, who was responsible, remedial action taken.
  - Income collection: has income been collected in time in non-contractual markets?
  - Tax reclaims: has outstanding tax been reclaimed and paid over in a timely manner?
  - Corporate actions: has client been recompensed for any missed corporate actions?
  - Counter party exposure: is there a concentration in counter party exposure across the scheme's activities?
  - Are there performance discrepancies between fund managers and custodian?
  - Efficiency of cash sweeping arrangements
- 6.5. All of the above could, potentially, improve the financial position of the Fund. Some performance aspects can be adequately monitored by MPF.

- 6.6. It is therefore proposed to draft a detailed specification for an appropriate custodian monitoring function and to initiate a tender procedure for such services.
- 6.7. It is possible that custody selection, custodian monitoring, and monitoring of securities lending could be subject to separate contracts.

**7. FINANCIAL IMPLICATIONS**

- 7.1. There is no provision for the current budget for a custodian monitoring service. If such a function is agreed, a small portion of the anticipated additional withholding tax received could be earmarked in the current year for such costs. Any ongoing costs would be built into future budgets.

**8. STAFFING IMPLICATIONS**

- 8.1 There are no staffing implications in this report.

**9. EQUAL OPPORTUNITY IMPLICATIONS**

- 9.1 There are none arising directly from this report.

**10. COMMUNITY SAFETY IMPLICATIONS**

- 10.1 There are no specific implications for any Member or Ward.

**11. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 11.1 There are none arising directly from this report.

**12. LOCAL AGENDA 21 IMPLICATIONS**

- 12.1 There are none arising from this report.

**13. PLANNING IMPLICATIONS**

- 13.1 There are none arising from this report

**14. BACKGROUND PAPERS**

- 14.1 None



**15. RECOMMENDATIONS**

- 15.1. That Pensions Committee agrees to extend the existing contract with State Street as Global Custodian to 30 September 2011.
- 15.2. That Pensions Committee agrees that a procurement process commence for the selection of a custodian monitoring service.

IAN COLEMAN  
DIRECTOR OF FINANCE

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## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**18 JUNE 2009**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **INSURANCE OF THE PROPERTY PORTFOLIO**

##### **1. EXECUTIVE SUMMARY**

1.1 This report requests the Pensions Committee to accept the lowest priced tender for insuring the 27 properties held by MPF. The contract period will be for three years, commencing 25 June 2009. The tender process has been managed by CB Richard Ellis (CBRE), the property management agent and has followed Council procurement procedures.

##### **2. ROLE OF PROPERTY MANAGING AGENT AND SCOPE OF POLICY**

2.1 The task of procuring insurance for the property portfolio is part of the role of the property managers, CBRE.

2.2 The current policies, with Aspen, cover the three year period up to 25 June 2009, at a current gross annual cost of £615,045.47 including Insurance Premium Tax. They cover engineering and general insurance, property owners' cover and terrorism cover.

2.3 In making such arrangements CBRE uses a selected broker (Marsh) with expertise in the insurance of commercial properties, who seeks quotes from three prominent insurance companies.

2.4 The quotations are received via the Council tendering procedures, and are made available to the brokers and CBRE. The brokers study the tenders, and adjust the figures where possible to ensure that identical levels of cover are reflected in all quotations, and share their observations with CBRE and MPF. Where necessary further adjustments are made to make price comparisons as fair as possible.

2.5 An appropriate Financial Services Authority (FSA) compliant person from CBRE then makes a formal recommendation to MPF of the most economically advantageous proposal.

- 2.6 This latest tender has followed the traditional commercial property insurance arrangements of a gross premium basis, whereby a rebate is payable by the successful insurer to the broker, the agent and the landlord. This avoids MPF having both to pay a broker fee and to re-imburse the managing agent for the costs of setting out the detailed specification of the insurance requirements on each property, and administering the process generally.
- 2.7 It is standard practice for a small retrospective annual rebate from the insurer should the claims record for each particular year be deemed to be modest, but such income, which would accrue entirely to MPF, cannot be assumed.

### 3. **OUTCOME OF TENDER PROCESS**

- 3.1 Tenders were received from the three insurance companies invited to tender. The table below indicates the initial quotations, and represent an annual premium shown on a gross of commission basis.

Tenderer	£
Norwich Union (Aviva)	544,419.95
Zurich	634,097.06
Aspen	711,521.93

- 3.2 MPF wishes to have a £25m Property Owners' Liability cover. As two tender responses covered a lower sum insured, the figures have been modified to allow for the £25m cover.
- 3.3 The Norwich Union (Aviva) proposal shows an annual 5% increase in premia in years 2 and 3. Because of this the average annual cost over 3 years is shown in paragraph 3.2. The Aspen proposal includes a 5% discount for a long term (3 year) agreement.
- 3.4 Adjustments have been made for the issues identified above resulting in the following final figures for consideration:

Tenderer	£
Norwich Union (Aviva)	573,427.00
Zurich	634,097.06
Aspen	678,055.54

- 3.5 An insurance premium tax of 5% is included in the above.

- 3.6 The quotations from Aspen are fixed in the sense that the current insurers are familiar with the properties, but Norwich Union (Aviva) and Zurich, in accordance with general practice, reserve the right to modify their premia, after due negotiation, should they find issues which are at odds with the information upon which they based their proposals. This reflects the acceptance that the costs and timescales of undertaking full surveys on all properties prior to submitting tenders are prohibitive, and that the quotations are made on the basis of information given and used in good faith. However, the brokers have indicated that the margin by which the tender from Aviva (Norwich Union) is lowest, should give adequate headroom to cover this eventuality.
- 3.7 The excess amounts per claim are £250 for Aspen and Zurich, and £350 for Norwich Union (Aviva).
- 3.8 The recommendation from CBRE is that the Norwich Union (Aviva) tender represents best value, in the sum of £573,427.00, including Insurance Premium Tax.

#### **4. FUTURE MODIFICATIONS TO THE TENDER PROCESS**

- 4.1 The above procedures differ in certain aspects from how the Council has procured other insurance. In particular, the broker being paid by commission rather than receiving a set fee, and the receipt of commission by MPF. These practices benefit MPF financially.
- 4.2 The next re-tendering of property insurance for MPF will cover the period from 25 June 2012. I shall review these aspects as part of that exercise.

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 The costs of the insurance cover are recovered from tenants by way of service charges. Insurance of void areas falls to be met by MPF, resulting in a reduction in the net rental and service charge income.
- 5.2 Annual savings of some £41,000 should result from this procurement exercise. Tenants will benefit via a reduction in this element of their service charges.

#### **6. STAFFING IMPLICATIONS**

- 6.1 There are no staffing implications in this report.

#### **7. EQUAL OPPORTUNITY IMPLICATIONS**

- 7.1 There are none arising directly from this report.

**8. COMMUNITY SAFETY IMPLICATIONS**

8.1 There are no specific implications for any Member or Ward.

**9. LOCAL MEMBER SUPPORT IMPLICATIONS**

9.1 There are none arising directly from this report.

**10. LOCAL AGENDA 21 IMPLICATIONS**

10.1 There are none arising from this report.

**11. PLANNING IMPLICATIONS**

11.1 There are none arising from this report

**12. BACKGROUND PAPERS**

12.1 Tender Documents

12.2 Email 8 June 2009 from CBRE

**13. RECOMMENDATION**

That the Pensions Committee accepts the lowest tender for property insurance for a three year period from 25 June 2009 for the property portfolio.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/130/09

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