Public Document Pack

Pensions Committee

Date:	**Tuesday, 11 January 2011**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
Tel:	0151 691 8492
e-mail:	patphillips@wirral.gov.uk
Website:	http://www.wirral.gov.uk

AGENDA

1. MEMBERS' CODE OF CONDUCT - 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.

2. MINUTES (Pages 1 - 4)

To receive the minutes of the meeting held on 16 November, 2010.

3. PENSION FUND BUDGET 2011-12

Report to be circulated separately.

4. TREASURY MANAGEMENT POLICY AND STRATEGY 2011/12 (Pages 5 - 20)

5. APPOINTMENT OF PROPERTY ASSET MANAGER (Pages 21 - 22)

6. MEMBERS TRAINING 2011 (Pages 23 - 26)

7. RESTRICTING PENSIONS TAX RELIEF (Pages 27 - 30)

8. AC AUDIT PLAN

9. REFURBISHMENT AT 241 BROOKLANDS ROAD, WEYBRIDGE, SURREY (Pages 31 - 32)

10. GOVERNANCE AND RISK WORKING PARTY

Report to be circulated separately.

11. PUBLIC SERVICE PENSIONS COMMISSION (Pages 33 - 60)

12. PASSIVE MANAGEMENT (Pages 61 - 64)

13. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)

14. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

15. STAFFING STRUCTURE

Report to be circulated separately.

16. INVESTMENT MONITORING WORKING PARTY MINUTES (Pages 65 - 74)

17. REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR ADMISSION BODIES (Pages 75 - 78)

Appendices attached separately.

18. WRITE OFF OF PROPERTY RENTAL ARREARS (Pages 79 - 84)

19. APPOINTMENT OF PROPERTY ASSET MANAGER - EXEMPT APPENDIX (Pages 85 - 86)

(See agenda item 5).

20. REFURBISHMENT AT 241 BROOKLANDS ROAD, WEYBRIDGE ROAD, SURREY - EXEMPT APPENDIX (Pages 87 - 88)

(See agenda item 9).

21. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)

This page is intentionally left blank

PENSIONS COMMITTEE

Tuesday, 16 November 2010

Present:	Councillor	G Watt (Chair)	
	Councillors	P Johnson D Knowles G Davies A Brighouse(In place of Cllr Tom Harney) Moira McLachlan (In place of Cllr Adrian Jones)	AR McLachlan R Moon H Smith
	Councillors	N Keats, Knowsley Council A Ibbs, Sefton Council Hanson, Liverpool City Council Patrick McCarthy Non District Council employer	
In attendance:		Phil Goodwin, Unison Paul Wiggins, Unison	
Apologies	Councillors	Anderton	T Harney Adrian Jones C Povall

45 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members of the Committee were asked whether they had any personal or prejudicial interests in connection with any application on the agenda and, if so, to declare them and state the nature of the interest.

Councillors Brighouse, George Davies and Keats declared a personal interest in general as their wives were members of Merseyside Pension Fund.

46 MINUTES

The Director of Law, HR and Asset Management submitted the minutes of the meeting held on 27 September 2010 for consideration.

Resolved – That the Minutes be agreed.

47 ASSET ALLOCATION

The Director of Finance submitted a report that outlined the proposed changes to the strategic asset allocation following a detailed analysis undertaken by the investment consultant Mercer, and discussions held with the internal investment management team and the independent adviser.

Resolved - That the new strategic asset allocation strategy be approved.

48 **LGC PENSION FUND INVESTMENT CONFERENCE**

The Director of Finance submitted a report that requested the Committee to consider if it wished to be represented at the Pension Fund Investment Conference organised by Local Government Chronicle to be held in Chester on 3-4 March 2011.

Resolved - That the Committee agree to send a delegation of three members to attend the Pension Fund Investment Conference and that places be allocated to Councillors Watt, Knowles and Tom Harney (to be confirmed to the Director of Finance).

49 **STATEMENT OF INVESTMENT PRINCIPLES**

The Director of Finance submitted a report that sought approval for a revised Statement of Investment Principles (SIP) for Merseyside Pension Fund incorporating changes in the strategic asset allocation and the letting of four new investment management mandates.

The Pensions Committee had approved the previous edition of the SIP on 23 March 2010. The revised SIP incorporated, and stated compliance with, the six updated Myners Principles in relation to investment decision making and governance.

The revised strategic asset allocation was outlined in a separate report which was also presented to the Pensions Committee for approval. Subject to approval by the Pensions Committee, the revised strategic asset allocation would be incorporated within the SIP.

Resolved – That the revised Statement of Investment Principles be approved.

50 **PUBLIC SERVICE PENSIONS COMMISSION**

The Director of Finance submitted a report that informed Members of the interim report published on 7 October 2010 by the Public Service Pensions Commission headed by Lord Hutton.

The Pensions Committee had considered the creation of the Public Service Pensions Commission on 27 September 2010 (Minute 29 refers).

The Public Service Pensions Commission had been tasked with conducting a fundamental review of public sector pension provision and had been asked to make recommendations to the Chancellor and Chief Secretary on pension arrangements. The Commission had been invited to produce a final report in time for the Budget 2011, but had also been tasked with producing an interim report. A copy of the Treasury press release for the interim report was attached to the report for Members information.

Resolved –

(1) That the report be noted.

(2) That officers be requested to work on processing a response to the final report on Public Sector Pension provision and circulate this to the Pensions Committee for comments before submission.

51 **RESTRICTING PENSIONS TAX RELIEF THROUGH EXISTING ALLOWANCES**

The Director of Finance submitted a report that informed Members of HM Revenue & Customs (HMRC) summary of responses to its discussion document on restricting pensions tax relief which had been published on 14 October 2010, and proposals for change.

The Director reported that following an announcement in the Budget on 22 June 2010 that the Government was considering an alternative approach to restricting tax relief, a discussion document "Restriction of pensions tax relief: a discussion document on the alternative approach" had been published in July 2010. Change was deemed necessary as it was considered that the existing system gave an unfair tax advantage to high earners.

Resolved - That the report be noted.

52 **FUNDING STRATEGY STATEMENT**

The Director of Finance submitted a report that proposed amendments to the Funding Strategy Statement (FSS) to reflect updated advice received from the Actuary on dealing with arrangements for funding of employer contributions and changes proposed to the Statement of Investment Principles (SIP) following completion of the 31 March 2010 actuarial valuation.

The Director reported that detailed consultation had been undertaken on the proposed changes with employers in the Fund and that a number of modifications made as a result.

The content of a written submission received from St Helens Council which did not support the proposed arrangements for funding employer contributions was considered.

Resolved – That the revised Funding Strategy Statement be approved.

53 **ACTUARIAL VALUATION AS AT 31 MARCH 2010**

The Director of Finance submitted a report that summarised for Members the results of the 2010 Actuarial Valuation of the Fund.

Resolved – That the revised contribution rates be agreed.

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

Resolved – That the public be excluded from the meeting on the grounds that following matters to be considered contain exempt information by virtue of paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

55 **MINUTES OF INVESTMENT MONITORING WORKING PARTY 13 OCTOBER 2010**

The Director of Finance submitted a report that provided Members with the minutes of the Investment Monitoring Working Party held on 13 October 2010.

Resolved – That the minutes of the Investment Monitoring Working Party held on 13 October be agreed.

56 **PAYMENT OF DEATH GRANT**

The Director of Finance submitted a report that outlined details regarding the payment of a Death Grant payment due to be made by Merseyside Pension Fund. The Committee was recommended to confirm that payment should be made in accordance with the recommendation of the Director of Finance and Head of Legal Services.

Resolved - That the Committee confirms that the death grant be paid to the deceased's daughter as sole beneficiary.

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT POLICY AND STRATEGY 2011/12

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to seek approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2011/12.

2. BACKGROUND

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires the Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy were last approved by the Pensions Committee on 13 January 2010.

2.2 The treasury management policy statement is also due for review.

2.3 In November 2009 CIPFA published a revised code of practice for treasury management in the public services following publication of the report "Risk and Return" by the Audit Commission.

3. POLICY STATEMENT

3.1 The policy statement is attached as Appendix 1 to this report and has been reviewed in light of the CIPFA Code of Practice.

4. PLAN AND STRATEGY

4.1 MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.

4.2 The portfolio arrangements outlined in schedule 1 to the policy statement and shown below will be maintained. The purpose of the ranges around the core positions is to allow the internal investment team to effectively manage the uncertainties currently being faced in the financial environment. The core position remains at 1% of Fund assets following the change to the strategic asset allocation approved on 16 November 2010.

	Core Position	Range
	%	%
Call Funds/ Overnight maturities	0.5	0.5 – 1.0
Deposits 1 month to 6 months	0.25	0.0 – 0.5
Deposits up to one year	0.25	0.0 – 0.25
TOTAL	1.0	

4.3 The main aims when managing liquid resources are:

- the security of capital
- the liquidity of investments
- matching inflows from lending to predicted outflows
- an optimum return on investments commensurate with proper levels of security and liquidity.

4.4 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at low levels for an extended period which will have an impact on investment income.

4.5 For MPF the achievement of high returns from treasury activity is of secondary importance compared with the need to limit exposure of funds to the risk of loss.

4.6 The maximum maturity for any single treasury management investment is 1 year.

4.7 Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support.

5. FINANCIAL IMPLICATIONS

5.1 There are none arising directly out of this report.

6 STAFFING IMPLICATIONS

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

9. LOCAL MEMBER SUPPORT IMPLICATIONS

9.1 This report has no specific implications for any Members or wards.

10. LOCAL AGENDA 21 IMPLICATIONS

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

11. PLANNING IMPLICATIONS

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

12. BACKGROUND PAPERS

12.1. Treasury Management in the Public Services: Code of Practice (fully revised second edition 2009) – CIPFA.

13. RECOMMENDATION

13.1 That Members approve the policy statement, and annual plan and strategy for the treasury management function for 2011/12.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/253/10

APPENDIX 1

MERSEYSIDE PENSION FUND
TREASURY MANAGEMENT POLICY STATEMENT

1 INTRODUCTION

1.1 Merseyside Pension Fund adopts the key principles of 'CIPFA's Treasury Management in the Public Services: Code of Practice' (the Code), as described in Section 4 of that Code.

1.2 Accordingly the Fund will create and maintain, as the cornerstones for effective treasury management:

- This treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which this organisation will seek to achieve these policies and objectives, and prescribing how it will manage and control these activities.

2 DELEGATION

2.1 Pensions Committee will receive reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of each financial year and an annual report after its close. The Investment Monitoring Working Party (IMWP) will receive interim reports on treasury management.

2.2 Pensions Committee is responsible for the implementation and regular monitoring of its treasury management policies and practices and will delegate execution and administration of treasury management decisions to the Director of Finance who will act in accordance with this policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

2.3 The IMWP is responsible for ensuring effective scrutiny of the treasury management strategy, policies and performance.

3 DEFINITION

3.1 Treasury management activities are defined as:
the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.2 The Fund regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Fund.

3.3 The Fund acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

TREASURY MANAGEMENT PRACTICES (TMPs)

4 TMP 1 RISK MANAGEMENT

4.1 The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Fund's objectives.

4.2 The Fund regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 and listed in the schedule (4.1, 4.2) to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

4.3 The Fund will ensure that it has adequate though not excessive cash resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business objectives.

4.4 The Fund will manage its exposure to interest rates with a view to securing its interest revenue as far as is possible within cash flow constraints and by the prudent use of permissible instruments.

4.5 The Fund will achieve these objectives by the prudent use of its approved investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level and structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

4.6 It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact.

4.7 The Fund will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its counterparty list it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

4.8 The Fund recognises that future legislative or regulatory changes may impact on its treasury management activities and so far as it is reasonably able to do so will seek to minimise the risk of these impacting adversely on the organisation.

4.9 The Fund will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

4.10 The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

5 TMP 2 Performance Measurement

5.1 The Fund is committed to the pursuit of value for money in its treasury management activities. Accordingly the treasury management will be the subject of ongoing analysis of the value it adds. It will be the subject of regular examinations of alternative methods of service delivery and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule (2.1) to this document.

6 TMP 3 Decision Making and analysis

6.1 The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching these decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule (3.1, 3.2, 3.3, 3.4) to this document.

7 TMP 4 Approved Instruments, methods and techniques

7.1 The Fund will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule (4.1, 4.2) to this document.

8 TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

8.1 The Fund considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

8.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

8.3 If and when the Fund intends, as a result of a lack of resources or other circumstances to depart from these principles, the “responsible officer” will ensure that the reasons are properly reported and the implications properly considered and evaluated.

8.4 As Director of Finance, I am the responsible officer. I shall ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule (5.5, 5.6, 5.7) to this document.

8.5 The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

8.6 The delegations to the responsible officer in respect of treasury management are set out in the schedule (5) to this document. The responsible officer will fulfil all such responsibilities in accordance with this policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

9 TMP 6 Reporting Requirements and Management Information Requirements

9.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

9.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

9.3 An annual report 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 Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.

9.4 The IMWP will receive interim reports on treasury management.

10 TMP 7 Budgeting, accounting and audit arrangements

10.1 The budget for the treasury management function will be included as part of the budget for the Fund which is submitted to Pensions Committee on an annual basis.

10.2 The Fund will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

11 TMP 8 Cash and cash flow management

11.1 All monies in the hands of the Fund will be under the control of the Director of Finance and will be aggregated for cash flow and investment purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule (8.1, 8.2) to this document.

12 TMP 9 Money Laundering

12.1 The Fund is alert to the possibility that it may become subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of Counterparties and will ensure that staff involved in this are properly trained.

13 TMP 10 Training and Qualifications

13.1 The Fund recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. I shall recommend and implement the necessary arrangements. The present arrangements are set out in the schedule (5.6) to this document.

13.2 I shall ensure that Pension Committee Members tasked with Pension Fund responsibilities have access to training relevant to their needs and responsibilities.

14 TMP 11 Use of external service providers

14.1 The Fund recognises that responsibility for treasury management decisions remains with the Fund at all times. The Fund recognises there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been subjected to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

14.2 The Fund will ensure, where feasible and necessary that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance. Details of the current arrangements are set out in the schedule (9.1, 9.2) to this document.

15 TMP 12 Corporate Governance

15.1 The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

15.2 The Fund has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management and I shall monitor and, if and when necessary, report upon the effectiveness of these arrangements.

MERSEYSIDE PENSION FUND:
SCHEDULE TO TREASURY MANAGEMENT POLICY

SCHEDULE 1:
RISK MANAGEMENT

1.1 The Fund has the following range of approved maximum limits for counterparties subject to meeting the high credit criteria determined by the Fund

CATEGORY	LIMIT Per Institution/Group
Fund's Bank	£30m
Approved Bank	£20m
Approved Building Societies	£15m
All Local Authorities	No limit
Money Market Funds with a Constant Net Asset value	£30m
Fund's Custodian (Internal Managers)	£30m
Fund's Custodian (External Managers)	£30m (guideline)

Funds deposited with the Custodian do not form part of the Treasury Management team's decision-making, but represent cash with fund managers awaiting investment. Cash left with the Custodian by internal managers will not exceed £30m. However, cash left by external managers is subject to their market calls. Subject to the restrictions within their individual Investment Management Agreements, the aggregate of their deposits could potentially exceed the £30m guideline in certain situations.

At the time of placing a deposit, a maximum country limit of 10% of the cash portfolio in any single jurisdiction outside the UK will be maintained.

1.2 Under exceptional circumstances e.g. transitional arrangements on appointment of new Investment Managers, these limits may be exceeded for a limited period with the prior written approval of the Head of Pension Fund and Fund Operating Group (FOG). Such instances will be reported to the following meeting of the IMWP.

1.3 Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment mangers), information from brokers, advice given to Wirral Council by their treasury management consultants, information on government support for banks and the credit ratings of that government support.

1.4 Counterparties will be added and removed from the Fund's counterparty list using the range of information sources detailed and full documentation will be retained. The approved list is maintained as an internal electronic document.

1.5 For credit rated counterparties, the minimum criteria will be the short-term/long-term ratings assigned by various agencies which include Fitch, Moody's and Standard & Poor's

	Fitch	Moody's	Standard & Poor's
Long-term	A+	A1	A+
Short-term	F1	P-1	A-1

This means that the Fund will only make investments that have a high credit rating.

1.6 Credit rating are monitored on a real-time basis for all three credit rating agencies on information from the Council's Treasury management advisors, and the Fund's lending list is updated accordingly with any changes, including 'rating watch' notices. The Fund will have regard to ratings issued by all three agencies and make decisions on the basis of lowest rating.

1.7 If a credit rating of a counterparty goes below the minimum criteria set by the Fund, the counterparty will be removed from the counterparty list for any new lending and where possible funds will be withdrawn immediately.

1.8 The Fund requires liquid resources to meet pension payments, investment commitments and administrative expenses. The cash flows from realisation and purchase of investments can be large and concentrated and the Fund needs to maintain facilities and resources to meet these. On days when there is a significant transition of assets between asset managers, appropriate arrangements are made with the Fund's bankers regarding the timings of the receipt and payments of cash flows (day light exposure).

1.9 The Fund's cash flows are in balance, with outflows to pensioners matched by income from contributions. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate. Pensions Committee and the IMWP have agreed the following base portfolio.

	Core Position	Range
	%	%
Call Funds/ Overnight maturities	0.5	0.5 – 1.0
Deposits 1 month to 6 months	0.25	0.0 – 0.5
Deposits up to one year	0.25	0.0 – 0.25
TOTAL	1.0	

1.10 It will manage its exposure to fluctuations in exchange rates. In general, the Fund will only hold foreign currencies to fund pending investment transactions thus limiting the exposure of treasury management activities to fluctuations in exchange rates so as to minimise any detrimental impact.

SCHEDULE 2:
PERFORMANCE MEASUREMENT

2.1 The performance of the Fund's investments are independently measured by WM Company The performance of cash is included as part of this process and is benchmarked against an appropriate inter-bank rate. This performance measurement is subject to scrutiny by Pensions Committee and IMWP.

2.2 The costs of investment management generally including treasury management expenses are separately accounted for in the Annual Statement of Accounts. Comparisons are made between internal and external fund management costs.

SCHEDULE 3:
DECISION MAKING AND ANALYSIS

3.1 Decision-making is delegated as indicated in the management arrangements set out in schedule 5. Day to day decisions are constrained by the risk controls set out in the other schedules such as approved instruments and counterparties etc.

3.2 Tactical decision making by officers will seek to use information from brokers to meet cashflows whilst gaining maximum return within risk constraints. Officers will have access to up to date market information.

3.3 Strategic decision making by officers and members will seek to set in place a plan that meets the needs of the Pension Fund in relation to its overall investment plan. The external advisers to the Fund (actuary and independent advisers) will help to ensure that decisions are well informed.

3.4 A risk assessment form will be completed for each treasury management transaction, detailing the circumstances at the time the decision is made and providing evidence of the issues considered.

SCHEDULE 4:

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 The Fund will use the following instruments for its internally managed treasury management activities:

- AAA rated money market funds with a constant Net Asset Value
- Call funds
- Fixed term deposits with counterparties
- Forward Fixed term deposits with counterparties
- Structured Fixed term deposits with counterparties (See Note 1)
- Cash at bank (RBS)

Note 1: these are effectively deposits which give MPF or deposit taker the option to cancel agreement or renegotiate duration/interest rate of the deposit at fixed periods agreed at commencement of the deposit. These products allow the internal team the opportunity to gain additional yield if their view on interest rates is correct, as the counterparty will have a contrarian view on either the direction or speed of interest rate changes.

4.2 The Fund will permit external fund managers to use all instruments permitted under the Investment Manager Agreement.

SCHEDULE 5:
ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 The structure for the treasury management functions is as follows:

Pensions Committee
Oversees all aspects of Merseyside Pension Fund on behalf of Wirral Council and the other admitted bodies. Reviews investment strategy and overall administration of the Fund.

Investment Monitoring Working Party (IMWP)
Makes recommendations to Pensions Committee following consultation with in-house managers and external advisers.

Responsible Officer
The Director of Finance, with responsibilities as set out in twelve Treasury Management Practices.

Fund Operating Group (FOG)
Includes reviewing the day to day operation of the investments function.

Financial Controller

Responsible for team that undertakes treasury management activities.

5.2 The day to day transactions for treasury management are executed by the treasury management team supervised by the Fund Accountant (Compliance).

5.3 The transmission of Funds is carried out by the settlements team through electronic banking system and the recording of transactions is monitored by the Fund Accountant (Operations) ensuring an adequate separation of duties in the system.

5.4 The physical authorisation of the release of payments from the bank account is made by the Fund's authorised signatories as approved by Pensions Committee.

5.5 There are sufficient staff employed in the process to cover absences and maintain a separation of duties; the duties of staff are outlined in their job descriptions.

5.6 Staff currently involved in the system have an adequate level of relevant qualifications. Further training, as required, is made available as part of ongoing staff development.

Director of Finance	CPFA
Head of Pension Fund	FCSI, ACIB
Financial Controller	CPFA
Fund Accountant (Compliance)	CPFA
Fund Accountant (Operations)	CIMA
Senior Settlements Officer	AAT
Compliance & Valuations Officer	Chartered MCSI

In addition, the Fund Accountant (Compliance) has passed the Certificate in International Treasury Management – Public Finance.

5.7 Dealing arrangements will be detailed within application forms (where applicable) and approved by an authorised signatory.

5.8 The Fund's policy is not to tape treasury management conversations, although faxed or emailed confirmation is required of the deal from the broker or directly from the counterparty before the payment is released.

5.9 Treasury management facilities are set up with the approval of at least one of the Fund's authorised signatories.

5.10 Treasury management facilities provided on the internet will be agreed with the Head of Pension Fund and will be scrutinised by the Compliance Section to ensure all necessary controls are in place.

SCHEDULE 6:
REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

6.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

6.3 An annual report 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 Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.

6.4 The IMWP will receive interim reports on treasury management.

6.5 The Fund Accountant (Compliance) will produce monthly reports for the Financial Controller prior to FOG meetings.

SCHEDULE 7:
BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 The Fund will ensure that its auditors and those charged with regulatory review have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule (10.1) to this document.

SCHEDULE 8:
CASH FLOW

8.1 Given the unpredictable nature of cashflows in investment management and in the payment of lump sum benefits, the Fund is not able to forecast cash flows precisely. The Fund has designed its cash portfolio to meet the principal material predictable cash flows i.e. pension pay days, and retains a sufficient level of liquidity to cover other calls on cash.

8.2 The investments office maintains cash flow statements on a monthly basis updated weekly for predictable cash flows and uses this as a tool to assist the treasury management function.

SCHEDULE 9:
USE OF EXTERNAL PROVIDERS

9.1 The main providers of services to the Fund are money market brokers. As the Fund does not borrow funds it does not pay commission to the brokers. The performance of brokers is under regular review by staff.

9.2 The Fund's main clearing bank contract is the subject of regular tendering exercises.

SCHEDULE 10:
CORPORATE GOVERNANCE AUDIT AND COMPLIANCE

10.1 The Fund is administered by Wirral Council is subject to its corporate governance arrangements including regular internal audit and annual external audit. The treasury management function is examined by both of these audits regularly as a high priority area. I shall ensure that all documentation listed below is made available to auditors:

- Internal policies
- Internal records of deals
- Counterparty confirmations

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

APPOINTMENT OF PROPERTY ASSET MANAGER

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to recommend the appointment of CB Richard Ellis (CBRE) as Property Asset Manager for a contract period of four years with a one year option to extend.

2. BACKGROUND

2.1 CB Richard Ellis has managed the property portfolio of Merseyside Pension Fund since March 1999 and the contract was renewed in February 2005 after a competitive tender.

2.2 The contract is due for renewal and a procurement exercise has been completed.

2.3 Tenders were sought for a Property Asset Manager for the Merseyside Pension Fund property portfolio. The exercise was conducted between the Procurement Team and Merseyside Pension Fund.

2.4 The criteria for assessment were preset at 65% for qualitative and technical ability and 35% for price.

3 NEXT STEPS

3.1 There is a ten day cooling off period under the procurement regulations following this decision. Thereafter, legal agreements will be completed for commencement of the contract on 1 February 2011

4 FINANCIAL IMPLICATIONS

4.1 The pricing structure submitted by CB Richard Ellis would equate to a cost of £231,689 per annum.

4.2 The full cost of managing the properties is recovered from the tenants.

4.3 In order to identify the annual cost I devised a typical package of services likely to be required in a typical financial year and sought submissions of likely costs from tenderers.

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. Tender evaluation spreadsheets and tender documents

12. RECOMMENDATION

12.1. That Members approve the appointment of CB Richard Ellis as Property Asset Manager for a period of four years plus an optional one year extension from 1 February 2011.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/265/10

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

MEMBERS TRAINING 2011

1. EXECUTIVE SUMMARY

1.1 Members are requested to agree a training programme for 2011.

2. BACKGROUND

2.1 It is a regulatory requirement for LGPS funds to outline, in their Statement of Investment Principles, the extent of their compliance with the 2008 Myners Principles and associated guidance. Myners emphasises the importance, for effective governance of pension funds, of adequate training for those acting in the trustee role.

2.2 The Statement of Investment Principles, as agreed by the Pensions Committee on 16 November 2010, states that "an ongoing training programme (updated annually) for Committee Members [*is provided*] to ensure that decision-making is undertaken on an informed basis."

3. TRAINING PROGRAMME

3.1 The anticipated training programme for 2011 is attached as Appendix 1 to this report. It comprises a series of internal and external training events throughout the year, to be arranged by MPF. Separate papers, to authorize attendance at these events, will be put to Committee on an event by event basis. As MPF becomes aware of other appropriate events, Members will be advised at the time.

3.2 Individual Members are offered bespoke training opportunities through the 3-day 'Fundamentals' course, provided by the Local Government Employers (LGE). In addition to serving as an introduction to the LGPS and to pensions and investments; its breadth of content also makes it suitable as refresher training. This course generally takes place between October and December: Members will be provided with details of course content, dates and locations closer to the time.

3.3 The internal training days, to be arranged by MPF, are intended to address topical pensions and investment issues with direct relevance to the work of the Pensions Committee. As such, Members' views on suitable subject matter are sought as part of the planning for these events. Given the increasingly wide range and complexity of issues considered by Members, it is proposed to add a third internal training day to the programme for 2011.

3.4 The purpose of the training days will be to cover issues in more depth than the time constraints of formal meetings normally allow. It is envisaged that three general overlapping themes will inform the planning of these events:

1	Regulatory, Fiduciary & Risk Management	Regulatory & policy framework for pension funds, Nature of the trustee role, Internal controls and operational due diligence
2	Investment Ideas	New and emerging ideas and themes in investments, Revisiting fundamentals of investment
3	Responsible Investment	Relation of concept to investment strategy, Voting and engagement activity, Climate change and investment policy

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 The anticipated costs of the programme will be included in the training budget for 2011.

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 were used in the preparation of this report.

11. RECOMMENDATION

11.1 That Members approve the training programme for 2011, including an additional internal training day.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/264/10

APPENDIX 1

Proposed Member Training programme for 2011

Month (2011)	Event	Representation*
February or March	Internal training day 1, Liverpool	All Members
3/4 March	LGC Investment Seminar, Chester	Party Spokespersons
16/18 May	NAPF Local Authority Conference, Birmingham	Chair
June or July	Internal training day 2, Liverpool	All Members
7/8 June	LGPS Trustees' Conference (LGE), Bournemouth	All Members
5/7 July	CIPFA Conference, Birmingham	Chair
7/9 September	LGC Investment Summit, Newport	Party Spokespersons
September or October	Internal training day 3, Liverpool	All Members
November	MPF Annual Employers' Conference, Liverpool	All Members
December	LAPFF Annual Conference, Bournemouth	Chair

*** Representation reflects previous attendance at these events**

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

RESTRICTING PENSIONS TAX RELIEF

1. **EXECUTIVE SUMMARY**

1.1. This report informs Members of HM Revenue & Customs (HMRC) further consultation in respect of the intention to restrict pensions tax relief on pension contributions with effect from April 2011.

2. **BACKGROUND**

2.1 The Pensions Committee last considered legislative developments affecting pension tax relief on 16 November 2010.

2.2 The Government has proposed that from April 2011 the Annual Allowance, which represents the limit by which pension benefits may increase each year and still preserve their tax exempt status, will be reduced from its current value of £255,000 to £50,000.

2.3 The Treasury and HMRC have jointly published a discussion document “Options to meet high annual allowances charges from benefits: a discussion document”. This discussion paper puts forward options for individuals to elect to meet any tax charge above a threshold (around £2,000 to £6,000) arising from exceeding the annual allowance by requiring the Pension Scheme to pay and account for the tax with an appropriate reduction in pension benefits.

3. **PROPOSED OPTIONS TO MEET THE ANNUAL ALLOWANCE CHARGE**

3.1. The document gives two approaches in which the tax charge can be met. These are “Real Time” and “Deferred Payment”

a. Real Time

The Scheme would pay to HMRC any tax due as part of the regular Accounting For Tax (AFT) processes no later than 31 December following the year in which the tax year ended.

b. Deferred Payment

In this scenario the tax charges are rolled up, revalued annually by reference to the interest rate on late paid tax, and paid to HMRC via AFT when the pension benefits become payable.

3.2 In both cases there would be a reduction in pension benefits to take account of the tax charge borne by the scheme. Schemes would not be allowed to levy an administration charge on the individual whose tax liability they are arranging settlement.

3.3 Comments on the discussion paper are invited by 7 January 2011 and MPF has prepared a response on the technical aspects of these two approaches.

4. FINANCIAL IMPLICATIONS

4.1 There may be an annual allowance charge against some members with long service who have a significant increase in pensionable pay. If they exceed the threshold they may request that MPF take appropriate measures to ensure the tax charge is met, and that the benefits payable are appropriately adjusted and accounted for.

4.2 MPF will incur additional administration charges through having to communicate these changes, and implement procedures to arrange for the settlement of the Annual Allowance charge and appropriate reduction to pension benefits.

5. STAFFING IMPLICATIONS

5.1. There will be an additional workload which cannot be calculated at present.

6. EQUAL OPPORTUNITY /EQUALITY IMPACT ASSESSMENT

6.1. There are none arising from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1. There are none arising from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. There are none arising from this report.

10. PLANNING IMPLICATIONS

10.1. There are none arising from this report.

11. **MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising from this report.

12. **BACKGROUND PAPERS**

12.1. HM Treasury and HMRC document "Options to meet high annual allowance charges from pension benefits: a discussion document" published November 2010.

13. **RECOMMENDATION**

13.1 That Members note the report.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/254/2010

This page is intentionally left blank

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

REFURBISHMENT AT 241 BROOKLANDS ROAD, WEYBRIDGE, SURREY

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the outcome of the recent tendering exercise in respect of refurbishment work for 241 Brooklands Road, Weybridge which is owned by MPF as part of the direct property investment portfolio. The tendering exercise was conducted on behalf of MPF by CB Richard Ellis (CBRE).

2. BACKGROUND

2.1 Terms have been agreed with a new tenant to occupy the first floor of this building.

2.2 Tenders submitted were based on:

A refurbishment of the office to an open plan configuration to include new ceiling, new lighting, new carpet,

B redecoration of the common areas and refurbishment of the sanitary accommodation

2.3 Details of the tenders are included in the exempt appendix. On the basis of cost, Cube Interior Solutions offered the best value, and was also the lowest cost.

2.4 During the negotiations with the new tenant it was agreed that the redecoration of the common areas and refurbishment of the sanitary accommodation would not be carried out.

2.5 I have accepted the CBRE recommendation that Cube Interior Solutions be awarded the contract for the sum of £98,647.00 plus VAT.

3 FINANCIAL IMPLICATIONS

3.1 The costs of these works will be met from a dilapidations settlement of £125,376.99 received from the out going tenant.

4. STAFFING IMPLICATIONS

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

7. LOCAL MEMBER SUPPORT IMPLICATIONS

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

8. LOCAL AGENDA 21 IMPLICATIONS

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

9. PLANNING IMPLICATIONS

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

10. BACKGROUND PAPERS

10.1. CBRE Tender Report and Analysis

11. RECOMMENDATION

11.1 That Members note the acceptance of the lowest amended tender for refurbishment work at 241, Brooklands Road, Weybridge in the sum of £98,647.00 plus VAT.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/257/10

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

PUBLIC SERVICE PENSIONS COMMISSION

1. EXECUTIVE SUMMARY

1.1. This report informs Members of the submission made by MPF to the Public Service Pensions Commission in response to the call for evidence dated 1 November 2010.

2. BACKGROUND

2.1 The Pensions Committee last considered this matter on 16 November 2010 (Minute 29 refers), at which time the interim report produced on 7 October 2010 by the Commission and the invitation to submit further evidence was discussed. As agreed at the last meeting of the Committee a draft submission in response to the Commission's letter of 1 November 2010 was circulated to all Pension Committee Members for comments.

2.2 The Public Service Pensions Commission has been tasked with conducting a fundamental review of public service pension provision and has been asked to make recommendations to the Chancellor and Chief Secretary on pension arrangements. The Commission has been invited to produce a final report in time for the Budget 2011.

3. CONSULTATION UNDERTAKEN

3.1. MPF circulated details of the invitation to submit evidence for consideration by Lord Hutton in drawing up his final report to all scheme employers. The responses received from a number of scheme employers were taken into account in preparing the response submitted by MPF (Appendix 1 attached).

3.2 To obtain scheme members views on a number of questions raised by the Commission MPF also carried out a web-based survey to answer a number of the questions asked by the Commission. Details of the survey were posted on the members and employers websites and an e-mail alert circulated to all those held on the electronic email circulation list.

3.3. The survey ran for five working days during which time 1,952 people (4% of the active membership) responded. Details of the responses received are summarised in Appendix 2. MPF received 526 individual comments from members who completed the survey which have been submitted to the Commission as an appendix to the response.

4. FAIR DEAL

4.1. The Commission has previously confirmed that it believes that the current pension structures, combined with the requirement to provide comparable pension ("Fair Deal") are a barrier to outsourcing public service provision. The Commission does not appear to accept that the LGPS approach to this by offering admitted body status to contractors provides a long-term, sustainable solution for the public sector. The Commission will address this issue in its final report. The Government is expected to carry out a further separate consultation on the Fair Deal policy.

4.2. Following recent speculation that the Government planned to withdraw the Cabinet Office statement of practice on workforce matters, the "Two-Tier Code", in an announcement on 14 December 2010, Cabinet Office Minister, Francis Maude, confirmed that the Code applicable to outsourcing from Central Government (the Code of Practice on Workforce Matters in Public Sector Service Contracts 2003) is to be withdrawn with immediate effect.

4.3. Clarification of the position in Local Government (i.e. the possible withdrawal of the Code of Practice on Workforce Matters in Local Authority Service Contracts 2003) is awaited from the Department for Communities and Local Government (DCLG).

5. UNFUNDED PUBLIC SERVICE SCHEMES DISCOUNT RATE CONSULTATION

5.1. On 9 December 2010 the Government launched a consultation on the discount rate used to set contribution rates in the unfunded public service pension schemes. The consultation will run until 3 March 2011.

6. NEXT STEPS

6.1. The Commission is expected in its final report in March 2011 to set out a broad framework for reform of the public sector pension schemes as a whole but specific proposals for changes to be made to the individual schemes will then be a matter for the relevant stakeholders and Government department (DCLG in respect of the LGPS).

7. FINANCIAL IMPLICATIONS

7.1 The outcome of this review is likely to have significant financial implications for all stakeholders in the Local Government Pension Scheme and other public sector pension schemes should the Government accept and act upon the recommendations.

8. STAFFING IMPLICATIONS

8.1. There are none directly arising from this report.

9. EQUAL OPPORTUNITY /EQUALITY IMPACT ASSESSMENT

9.1. There are none arising from this report.

10 COMMUNITY SAFETY IMPLICATIONS

10.1 There are none arising from this report.

11 HUMAN RIGHTS IMPLICATIONS

11.1 There are none arising 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. MEMBER SUPPORT IMPLICATIONS

14.1. There are none arising from this report.

15. BACKGROUND PAPERS

15.1. Letter dated 1 November 2010 from the Public Service Pensions Commission

16. RECOMMENDATION

16.1 That Members agree the response submitted to the Commission attached at appendix 1.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/256/11

This page is intentionally left blank

Lord Hutton of Furness
Chair, Independent Public Service Pensions Commission
1 Horse Guards Road,
London,
SW1A 2HQ

Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 15 December 2010

Dear Lord Hutton,

CALL FOR EVIDENCE FOR FINAL REPORT
LOCAL GOVERNMENT PENSION SCHEME

I refer your letter dated 1 November 2010 inviting evidence and views to assist you in considering the issues outlined in order to produce your final report and recommendations. I submit the following response on behalf of the Wirral Borough Council in its capacity as the Administering Authority of the Merseyside Pension Fund.

Background

Wirral Council is responsible for the administration of the Merseyside Pension Fund which is part of the Local Government Pension Scheme (LGPS). The Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils, and over 130 other employers on Merseyside and elsewhere throughout the UK.

The Fund has some 50,000 active contributing members, 41,359 pensioners and 34,000 deferred pensioners. It is responsible for the investment and accounting for a fund of £4.5 billion.

As part of the funded LGPS scheme in England the Merseyside Fund had assets to meet 78% of its future liabilities at the latest valuation as at 31 March 2010 and has a positive cash-flow.

As a LGPS fund it already pays on average lower pension (£4,640 p.a. for pensioners and £2,496 p.a. for survivor pensioners) than other public sector schemes, which as you have previously confirmed cannot be regarded as "gold-plated" in comparison with many private sector pension schemes.

Fund consultation undertaken

The Fund has consulted with its constituent employers and received a number of submissions from them which it has had regard to in drawing up this response to the Commission. The Fund's response to the 25 questions that you asked in your call for evidence is attached.

The Fund has recently also carried out a web based survey of its members views with some 1,952 people, (4% of the Fund active membership) taking part during the five days the survey ran for.

Details of the results of the members' survey, a representative selection of comments received together with results of the previous consultation on Scheme reform carried out in 2006 are also contained in Appendix 1.

As part of the survey the Fund received a total of 526 individual comments in relation to questions asked and full details of these are contained in Appendix 2. Statistical information on the Fund is provided in the attached annexe to this letter.

Future arrangements for the LGPS

The LGPS already has a higher retirement age (65) than most other public sector schemes for existing and new members.

Because of its funded nature it has a history of being subject to a high level of scrutiny and conscientious management by locally elected officials and council finance directors. It already delivers a high standard of administration and investment performance at a competitive cost in comparison to the private sector.

It is also the Fund's view that the LGPS is already ahead of all other public sector schemes in delivering effective reform.

With consideration to the above, and having regard to the attached evidence it is the view of this Fund that **retention of the final salary basis would be the most appropriate decision for the LGPS.**

In view of the overwhelming support and strong feelings expressed by scheme members, at an absolute minimum, existing members should be offered an option to retain the final salary basis and if necessary any additional cost be met by higher employee contributions. The attached detailed response also considers the alternative types of Scheme outlined in your questions and the Interim Report.

The Fund would be pleased to answer any further questions that you may have and to provide you with any additional information that you feel would be helpful.

Please do not hesitate to contact me if I can be of further assistance.

Yours sincerely

Director of Finance

enc: Summary of Response
Detailed Response to Questions
Annexe – Merseyside membership statistics
Appendix 1 – Survey results and selected comments from members
Appendix 2 – Full list of member comments to survey

Merseyside Pension Fund
Summary of Response

The Merseyside Pension Fund believes that the recommendations emerging from Phase 2 of the Independent Commission's review should:-

- be strategic and high principled and provide a strategic policy framework within which the LGPS and other public service schemes can conduct their own reforms with full recognition given to their occupational, financial, governance and administrative contexts;

- recognise the context, post Spending Review, within which any pension reforms need to take place;

- allow a reasonable timeframe for reform having regard to the need to consult with all stakeholders and to allow sufficient time for legislation to be properly made and computer software and systems to be updated. Any unnecessary complexity will only add to costs and result in a longer period of implementation;

- make simplicity a major objective of the Phase 2 recommendations to avoid over-complexity and the resulting risk of confusion of members and higher costs to employers and providers. The results of our scheme members' survey shows that complexity is a disincentive to employee participation in pension schemes and any lack of clarity and perceived uncertainty about possible reduction in pension security will result in more "optant outs";

- have recommendations that recognise in full the individual distinctiveness of each scheme, including its pay and occupational/gender characteristics and do not seek to impose a detailed 'one size fits all' solution on individual schemes;

- recognise that other countries' systems are bespoke to their wider state pension and governments' priorities towards public pensions;

- recognise the already strong local credentials of the LGPS, recognise that as well as being properly funded, and funded locally, the LGPS is governed, administered and invested at individual pension fund authority level by elected members representing the council taxpayers and others who stand behind the LGPS;

- take into account the experience, expertise and structures of the individual LGPS pension fund authorities as an integral part of local government and that they operate separately and distinctively from the PAYG, schemes and within their own distinctive and financial regulatory frameworks;

- recognise the fact that LGPS administering authorities are already responding to the challenge of efficiency, joint procurement and partnership working. For instance, the DCLG will, in the New Year, be leading on this with specialists in the sector and with leading stakeholder groups. Any proposal to impose changes combining/reducing LGPS pension fund authorities appears to be anti-local and reducing local democratic control and oversight;

- recognise explicitly the LGPS regulatory framework, through its statutory triennial valuations with employer adjustments being in place within one year of completion; the existence of fund authority Funding Strategy Statements to manage transparently and locally its deficit recovery programmes while protecting council taxpayers. Fund Statements of Investment Principles, are published locally;

- recognise the income stream provided by the LGPS pension fund investment process which offsets directly employers' costs and helps to guarantee annual positive cash balances in the Scheme;

- acknowledge that the LGPS is fully transparent and far more so than any other public service pension scheme. For example, the preparation and publication locally of:-

  Funding Strategy Statements; Statements of Investment Principles; Myners' Compliance Statements;

  Pension Fund Annual Reports, including:
    - audited accounts;
    - summary of actuarial valuation reports,
    - investment performance,
    - governance & risk management frameworks; and
    - communication policy statements

  all of which are agreed by locally elected members, providing a robust, stable and viable pension framework for members, employees and council taxpayers.

- recognise that as a result of its funded nature and reform already delivered the LGPS is affordable and sustainable without the need for further radical change.

Merseyside Pension Fund
Detailed Response to IPSPC Questions

Scheme Design

Q1) What is an appropriate scheme design for public service pensions? Why?

In looking at future scheme design for public service pensions it is essential to recognise the distinctive characteristics of the existing schemes. There are understandable concerns regarding the costs of funding the unfunded public sector pension schemes. However, this Fund believes that a case can be made because of the distinctive nature of the Local Government Pension Scheme (LGPS), that in that it has already gone further in terms of reforms for both existing and new members and having regard to its funding position it should be looked at separately from the unfunded schemes. The Merseyside Fund believes as explained below that the case for further fundamental reform of the LGPS has not been made.

Unlike most public service pension schemes the LGPS is a funded pension arrangement and its investment and administrative performance is transparent and subject to local democratic accountability. The individual LGPS funds are in many ways operated along the same lines as the best private sector schemes. The LGPS funds are required to publish annual reports on performance, undertake triennial valuations, have clear and published policies on funding strategy and investment principles, as well as their Governance arrangements and approach to communications.

The LGPS was last reformed in April 2008, following extensive consultation with employees and employers. That consultation showed “a clear and strong consensus amongst respondents to the “Where Next?” consultation indicating significant support for retention of “a final-salary scheme which meets the test of affordability, viability and fairness to members, employers and taxpayers”. Communities & Local Government Regulatory Impact Assessment to the draft LGPS (Benefits, Membership and Contributions) Regulations 2007).

The Local Government Employers Organisation (LGE) undertook its own survey in 2006 of employers regarding options for change, which showed there was little support for career average schemes, nor for a hybrid final salary/career average scheme (LGE letter to CLG dated 12 October 2006).

Merseyside Pension Fund’s own survey of its membership at that time revealed that 84% of the respondents had a preference for retention of a final salary scheme, with 70% of respondents being prepared to pay additional contributions for a better benefit package.

The resultant scheme provides final salary benefits which are expected to cost nationally “an average existing member and new entrant employer benchmark cost of 13.2% with an average employee contribution of 6.3%” (Communities & Local Government letter dated 23rd November 2006). These are not figures which would appear to indicate a pension scheme in crisis and for the Merseyside Pension Fund the recent 2010 valuation has confirmed that the average employers’ future contribution rate required is 11.6%. In addition, cost sharing arrangements are in place and the ability to cap future increases in employer contributions to address any future concern about the affordability of the scheme.

Unlike the unfunded public service schemes, for the LGPS the real concerns about costs revolves around funding of past service deficits. Changes to future benefit accrual are unlikely to impact directly on funding of past service deficits.

Within the LGPS dealing with the deficits is dealt with through the Funding Strategy Statement required to be published by each LGPS administering authority following consultation with employers.

The Merseyside Pension Fund in its Funding Strategy Statement is seeking to rectify the past service deficit within a maximum 25 year time frame by additional employer contributions. This is believed to be not untypical of other LGPS administering authorities. The maximum 25 year period is indicative of the strength of the employer covenant that exists with public bodies. It also provides for a recovery of deficits during the period when the LGPS is expecting to be receiving more by way of contributions than it pays out in benefits. In this Fund there is normally a requirement for a bond or guarantor to be provided to the Fund by non-local authority employers within the LGPS and the deficit recovery period for these employers may be considerably less than 25 years.

Having regard to the recent Pensions Policy Institute report “The Future of the Public Sector Pensions” which indicates that only the existing final salary schemes are likely to achieve a 60% benchmark pension income replacement rate for median earners and the claims “The combined impact of the last Labour Government’s reforms and the Coalition Government’s recent announcement on CPI indexation has reduced the value of a public sector pension to a typical public sector worker by around 25%” the Fund questions whether further fundamental reform is still necessary in a funded, well managed, transparent and democratically accountable scheme such as the LGPS.

Although the Fund welcomes the Commission’s support for retention of defined benefits for public sector pension provision the Fund believes that there is a case for retention of a final salary defined benefit scheme for the LGPS and regrets that the Commission in its interim report concluded that “long-term structural reform is needed, as these issues cannot be dealt with through traditional final salary defined benefit schemes”, and is proposing to only look at alternatives to final salary schemes in its final report.

This Fund would therefore suggest that having regard to its unique characteristics including its funded nature that the LGPS should be allowed to retain the final salary arrangement if those responsible for its funding and management believe that it is the most appropriate choice. The following comments expand on this point and address the possible alternatives suggested in the interim report.

Given the diversity of occupational/gender characteristics, and pay levels across the existing public sector schemes it may not be practical or appropriate to introduce a “one size fits all” solution. The comments which follow below are mainly concerned with alternative approaches to the Local Government Pension Scheme.

In its interim report the Commission highlighted 4 principles for public service pensions: -

- Affordable and sustainable;
- Adequate and fair;
- Support productivity; and
- Transparent and simple

The Commission acknowledges that these principles will tend to pull in different directions. It is accepted that the underlying aim of reform is to achieve public sector pension provision that is affordable and sustainable. Although what is considered to be affordable and sustainable is ultimately a political decision, it can be argued that this is best achieved with a scheme that is transparent and simple. If a scheme is overly complicated to achieve the other two principles it runs the risk of poor take-up and high administration and communication costs, which would result in more people being reliant on means tested state benefits in retirement.

The interim report highlights seven types of pension scheme as being amongst those for consideration: -

- Career average defined benefit (DB) schemes;
- Notional defined contribution (DC) schemes with added protections;
- Collective DC schemes to smooth out investment risk;
- Cash balance schemes;
- Nursery or sequential hybrid schemes;
- Defined Benefit Schemes with earnings caps;
- Combinations hybrids of DC and DB schemes.

It can be argued that to deliver transparency and simplicity it should be a defined benefit scheme and a scheme which is easy for members to understand and that is economic to communicate and administer.

DC & Hybrid schemes do not meet the criteria of being easy to understand by members, and can be costly to administer and communicate.

Therefore based on the above the most viable alternatives would appear to be: -

- A career average scheme; or

- A Defined Benefit Scheme either final salary or career average with an earnings limit, providing access to Defined Contribution arrangements for earnings over that limit.

- However, based on the results of consultation with scheme members which confirmed a desire for retention of final salary as the most popular future calculation basis (see Appendix 1) the Fund would support the provision of an option for either all existing members (or at least those within a short timescale of retirement) to be able to retain final salary benefits in return for increased contributions to meet any additional costs arising.

The employee contribution arrangements also need to reflect the fundamental structure of the scheme. Some of the existing final salary public sector schemes such as the LGPS currently have banded contribution rates based on different salary levels, in an attempt to redress some of the perceived inequalities within final salary schemes that appear to favour high flyers.

The Fund believes that any move from final salary to a career average scheme or imposing maximum pensionable earnings caps, together with the impact of the new HMRC tax restrictions on relief for pensions contributions will mean that any advantages to “high flyers” will no longer exist, making a case for a return to a flat contribution rate for all members. It should not be a function of a contributory occupational pension scheme to be used as a tool for the redistribution of wealth between different income groups within society by means of differential contribution rates or benefits. This is something which should be dealt with by Government taxation and welfare policies.

Risk-sharing

Q2) which risks associated with pension saving should the scheme members bear which by the employer and which should be shared? Why?

The public sector as a whole should continue to be seen as a model responsible employer and one which sets a benchmark that private sector schemes should aspire to, especially as regards occupational pension provision rather than “the race for the bottom.” An equitable distribution of risk does however need to be considered. It is accepted that Final salary schemes place a lot of the risks associated with running a pension scheme on the employer, but it is important to establish some criteria for sharing risk.

In February 2008 the Department for Communities & Local Government published a consultation paper “Sustaining the LGPS in England and Wales” in which it identified the following risk factors for consideration: -

- Changes to longevity
- Other demographics – e.g. staff turnover, rates of ill health retirement, deaths in service, etc.
- Pay increases
- Options available – e.g. added pension contracts and exchanging pension for tax-free lump sum
- Benefit Structure
- Overriding legislation – e.g. HMRC tax simplification and the change from RPI to CPI for indexation.
- Investment returns
- Financial assumptions
- Actuarial methodology

Of the above factors the Fund believes that the most significant current concerns over the affordability and sustainability of funded occupational pension schemes revolves mainly around 2 of these factors – Changes to longevity and Investment returns.

It would be appropriate to see who is responsible for controlling or benefits from these risk factors: -

a) Longevity is clearly a benefit to the scheme members and it would not be unreasonable to see that this is reflected within changes to the scheme rules, either by a having a flexible normal retirement age which matches the State Pension Age, or changes to the underlying benefit package, or by increasing contributions. The latter option could have a potential serious impact upon take up of membership of the low paid.

b) Investment risk (within the LGPS) is mainly the responsibility of the scheme administrator/employer, with the scheme membership at best, only having a limited input into the investment process. In non-funded pension schemes it is understood that a notional investment return is made within the actuarial calculations, as such the membership again has very little if any input into those assumptions. The investment risk clearly lies with the scheme administrator/employer.

Factors relating to Financial Assumptions and Actuarial Methodology will also fall to the administrator/employer. Whereas, factors such as other demographics, pay increases, options available all fall within the area of benefit structure which will with proper design share the risk.

Q3) what mechanisms could be used to help control costs in public service Schemes?

The existing cap and share arrangements within most, if not all, public sector schemes including the LGPS already provide a framework to limit and share the future increases in costs.

In considering potential measures to deliver costs savings in the short term by further increasing employee contributions, the implications of such a measure for admitted body employers in the funded LGPS needs to be taken into account. It would be anomalous if employees of such bodies were subject to the increase in employee contributions if the individual employer did not benefit from a credit to its funding position or reduction to its employer contribution rate.

Q4) Where and how have risks associated with pensions been effectively shared in private sector companies?

It is difficult to identify effective examples of risk sharing in the private sector which has to a large extent abandoned defined benefit arrangements in favour of passing all of the risk to employees by means of defined contribution arrangements.

Q5) Which international examples of good practice in the area of risk sharing should the Commission consider when compiling the final report? Why?

We have no particular comment to make on this question other than to state that we need to be aware that looking at arrangements in other countries will not necessarily provide an easy blueprint for the UK public sector. Indeed it is important to recognise that public sector pension provision in operation in other countries will reflect wider issues of overall state benefit provision, and the extent of the public sector, and differing government priorities.

Q6) What should the split between member and employer contributions look like?

If the cap and share arrangements currently provided for within the LGPS are retained this would enable a cap to be set upon the employers contribution to meet future service costs, within a funded scheme such as the LGPS the balance required from the employee would also depend upon expected investment returns.

For some time within the LGPS there has been a cost sharing position with the employer paying contributions up to around twice what the member has been expected to pay for future service provision (i.e. a sharing of costs on a 1/3 employee and 2/3 employer basis).

The average future service rate for this Fund at the 2007 valuation was 12.1% of pensionable pay. The average future service rate at the 2010 valuation has fallen to 11.6% with employees paying around 6.4% on average within a range of 5.5% to 7.5%.

The cost to the employer of financing any past service deficit is a further factor to be taken into account.

Q7) Should there be different treatment of different professions (for example, lower normal pension ages for some public service employees)?

Yes. Clearly some occupations within the public sector as a whole carry with them different physical or mental demands which are also influenced by the age of the member including operational staff within the emergency services and the armed forces. There is clearly a need to consider the appropriate normal retirement age for different occupations.

Within the LGPS (with the exception of a small number of staff transferred from the Civil Service Scheme into the LGPS with protected early retirement ages) all staff covered by the LGPS are subject to a common retirement age of 65. This is despite the fact that some local authority staff are required to carry out physically demanding roles which may become more difficult with age no specific provisions provide for an earlier right to retire early to recognise this.

Q8) Should there be different treatment for those at different income levels?

The Fund believes that it should not be a function of an occupational pension scheme that it is used as a tool for the redistribution of wealth between different income groups, this is something which if felt necessary should be dealt with by Government taxation and welfare policies.

The case for different treatment for those on different income levels to address fairness issues within the scheme will depend upon the benefit and contribution structure of the scheme. There are issues within final salary pension schemes regarding the advantages to high flyers, although this has within the LGPS and NHS been partly addressed by having differential contribution rates set within tiered income bands. The recent changes announced by HMRC to the taxation of pension contributions will further reduce the advantage which high flyers are perceived to have.

Although a move away from a final salary scheme to either a career average scheme or a final salary scheme with an income cap would further reduce any advantages to high flyers this would negate the justification for the current tiered contribution rates.

Q9) What is the appropriate normal pension age for the different public service schemes? Should this vary across schemes and, if so, why?

See the response to question 7. This should be established after consultation with the appropriate employer and employee representatives for the different schemes. The Fund believes that there is a case to be made for the non-uniformed public service schemes to have a normal retirement age linked to the state pension age for men.

Adequacy

Q10) How should the Commission think about measuring adequate levels of resources in retirement?

The first report of the Pension Commission headed by Adair Turner entitled "Pensions: Challenges and Choices" published in 2004 provided a great deal of evidence as regards income replacement rates. This evidence was expanded upon by the report of the Pension Policy Institute "The future of Public Sector Pensions" published in November 2010. The Fund believes that this work would represent a good framework for the Commission to focus on.

Q11) What should be considered an adequate level of resources in retirement?
To ensure that the members receive a benefit appropriate to their contribution over a relevant number of years the minimum target should be based upon something in excess of the levels which would trigger any means tested benefits – pro-rated to the earnings in employment.

Based upon the work undertaken by the Adair Turner Commission and the Pension Policy Institute regarding income replacement rates an ideal scenario would be to provide for a full time employee with appropriate full working life membership to be able to achieve somewhere between 50% to 80% of their earnings.

Q12) Should a full state pension and a full public service pension ensure people have adequate resources in retirement? Or should room be left for individuals to make their own arrangements?

A full state pension and full public service pension should provide adequate income in retirement. Expecting people to make their own arrangements would potentially lead to more people claiming means tested benefits, which would fall upon the taxpayer.

The private sector move away from defined benefit schemes to defined contribution schemes has according to recent Research by Long Finance in its report "Don't stop Thinking about Tomorrow: The Future of Pensions" led to such schemes providing grossly inadequate income and condemning future elderly to a life of poverty". Such individuals will fall upon the state for support through means tested benefits. It further claims "The effect of legislation has been to drive employees into grossly inadequate DC schemes, where they bear every risk to their retirement income alone, despite being overwhelmingly unequipped to do so".

Within the LGPS individuals can already make further arrangements to top up their occupational pensions by making additional voluntary contributions or purchasing additional pension within the scheme.

Q13) How should this change where people work part careers in public service?

The amounts payable from public sector schemes for people who have partial careers should be pro-rata to a full time/ full career employee. They will have had the opportunity to build up other pension rights in any other non public service occupation they may have had or may have in the future.

Employee understanding and choice

Q14) How much do workers value and understand pensions? Is there any evidence this differs between groups (for example, by age, by income)?

The Merseyside Pension Fund has undertaken a survey of its membership on this point with full details of the results given in the attached appendix. With over 1,950 respondents representing 4% of the Fund’s active membership, 87% of respondents considered their LGPS pension arrangements as either valuable or very valuable when making career decisions.

Here are some typical comments from the many made in the survey: -

> *“An occupational pension gives an individual an independent income in their retirement, for a lot of individuals it offers a structured savings plan that they would probably never make if it was left to an individual to choose, plan and organise”.*
>
> *“As a young person should I worry about a pension I may never be able to claim (or won’t provide a sufficient income) or just buy property because I need somewhere to live now and can sell it when I get old? It’s a tough choice for low paid people. Occupational pensions do at least remove some of the confusion, as long as your employer looks after it properly it should be one less thing to worry about.”*

Q15) Which forms of scheme design will encourage employees to save for their retirement? Is there any evidence from pension scheme reforms influencing opt out rates in the private sector?

Although it could be argued that a defined benefit arrangement is in some ways easier to communicate and understand, evidence shows that within the private sector people are not putting enough into DC arrangements, nor do they always make the best choices when the time comes to make an annuity option. The existing LGPS defined benefit final salary scheme is comparatively easy to understand, and highly valued by existing members, many of whom would be prepared to pay higher contributions if necessary to retain the option. That the need for members to have confidence in the security of their Scheme and the safety of their future pension is crucial is demonstrated by comments received by the Fund in its latest member consultation and loss of confidence will inevitably result in increases in opting out or decisions not to join.

Q16) What best practice exists in the private sector around communication of benefits with scheme members?

Many of the communication policies considered best practice within the private sector e.g. scheme booklets, regular newsletters, annual benefit statements, and website access, have all been widely used by LGPS administering authorities including Merseyside and many of whom have won awards for their approach to communication.

Q17) Should any new scheme design offer members a degree of choice in the level of contributions paid and benefits received? For example, should members be able to receive a higher pension if they want to take the pension later? Why?

A number of members of the scheme have expressed support for a degree of choice to target or exclude specific benefit that they would or would not choose to take up given a choice. However the Fund would recommend that for long term planning such as pensions it should be the guiding principal to “keep it simple” and this may lead to the need to limit options. The wrong decision taken on contributions and benefits options taken at an early age would be more likely as a result of the member looking at short-term needs rather than providing adequate income in retirement.

The funded LGPS already provides for an actuarial increase in benefits for those members who stay in employment beyond their normal retirement age.

Pensions and plurality of provision of public services

Q18) Whether and how public service pensions could be structured to support a more level playing field between the public and private sectors when tendering for contracts?

Anyone bidding for a public sector contract should provide pension arrangements at least equal to those within the public sector. Otherwise this would distort any bidding process, with the external bidder potentially not having to consider pension costs, or only reduced pension costs in its bid.

The existing admission body arrangements within the LGPS have not been a barrier to the private sector being successful in its bids for services and is widely taken up in the experience of this Fund. The LGPS admission arrangements should form a model for the rest of the public sector. To minimise difficulties in contracting and to ensure equal treatment of staff, the public sector procurer could agree to carry the risk of volatility of agreed pension costs by allowing the contractor to tender on the basis of paying the future service rate.

Q19) Which non-public service employees should be eligible for membership of public service schemes?

Only those who undertake work which has been awarded under a contract from a public authority.

Administration costs

Q20) What evidence is there on administration costs (excluding fund management costs) of private sector pension schemes? How do these compare with those in the public service schemes?

Capita the well known third party provider of services to the public sector produce an annual survey on Pension Fund Administration costs. Within the LGPS, CIPFA carry out an annual survey comparing administration costs between LGPS administering authorities and also by reference to the Capita figures.

The average unit cost for the LGPS and for this individual Pension Fund compares favourably with both in-house and outsourced private sector arrangements.

Q21) How do private sector schemes ensure that there is good quality and efficient scheme administration? Which measures can be applied to public service schemes?

Within the LGPS the CIPFA annual pension administration benchmarking survey referred to above already assists in establishing good quality and value for money.

Q22) Is there scope for rationalising the number of local government pension funds? If so, how could this be achieved?

Any proposal to impose changes combining/reducing LGPS pension fund authorities appears to be anti-localism and reducing local democratic control and oversight. Although there may be scope for some rationalisation of local government pension funds, in looking at possibilities it should be remembered that as well as being funded, and funded locally, the LGPS is governed, administered and invested at individual pension fund authority level, and governed by locally elected members representing the council taxpayers and employers who stand behind the LGPS.

This provides real local democratic accountability especially over such things as the application of Fund policy discretions. The administration and investments functions are also transparent with for example the publication of Funding Strategy Statements, Statements of Investment Principals, Annual Reports, and Governance and Communication Policy Statements.

This level of local accountability to one of the key stakeholders of the scheme the Council Tax payer would be difficult to replicate if rationalisation is taken to extremes. The LGPS is larger in terms of membership than the Civil Service, Teachers, Fire, Police, and armed forces combined. It is a funded scheme if all of the local authority funds where to be combined it would produce an investment organisation which could potentially seriously distort the stock and bond markets.

There are already examples available of LGPS administering authorities developing partnership working and the CLG intends to promote the development of such initiatives more widely in the coming year.

Transition issues

Q23) How can the Commission ensure an effective transition to the new arrangements?

This all depends upon the decisions taken about the nature of the new arrangements in comparison to existing entitlements, delivering satisfactory guarantees on protection of accrued rights and the timescale for implementation.

If it is planned to have the new arrangements within the lifespan of the current Parliament (i.e. before the next General Election), which would remove the current uncertainty impacting upon pension planning, then it would be essential to keep the new scheme as simple as possible. The need for any proposed changes should be capable of justification on grounds of affordability and sustainability having regard to the significant changes that have already been made to pension arrangements including the recent CPI change.

As previously stated in this response, in terms of the LGPS this Fund believes that retention of the current final salary basis is the most appropriate choice.

Should however a decision be made to alter the current calculation basis and to close off the current scheme from a chosen date and calculate deferred benefits in respect of members' accrued rights to be increased in line with a specified revaluation index, this would be likely to reduce the value of accrued rights and so make the task of agreeing a smooth transition more problematic.

The only way to fully protect scheme members' accrued rights and to avoid substantially reducing the "pension promise", in respect of those rights, would be to continue to calculate benefits at leaving based on final salary. i.e. the salary at date of conversion to the new scheme arrangement should continue to be increased each year until leaving in line with that individual's rise in pensionable pay and after leaving in line with the relevant benefits revaluation index CPI/RPI.

This is the approach which was adopted in previous similar circumstances for accrued service up to the introduction of the new LGPS scheme in April 2008 and any other approach would not be seen by members as fully protecting accrued rights.

Continuing to calculate benefits at leaving in respect of the membership accrued up to the cut off date for the old scheme rules would also potentially avoid the need to carry out calculations in respect of all active members at the cut off date.

Q24) What can the Commission learn about moving to a new scheme from best practice in the private sector and internationally?

The Commission should recognise that nearly, if not all public sector schemes have a great deal of experience as regards moving to new schemes as a result of recent reforms. The key is to keep the new arrangements simple to understand and to allow sufficient time to not only agree and pass the relevant legislation, but also to prepare and deliver what will be a major communication exercise to employers and members, develop suitable administration software, retrain pension staff, and process whatever transitional arrangements are deemed suitable.

Q25) How have accrued rights been protected or transferred during changes in schemes in the private sector?

The Merseyside Pension Fund does not have experience of this issue but it is believed that in the private sector protection is generally given only as far as minimum levels required under the various pension acts.

-- ends

Annexe

Merseyside Pension Fund Statistical Information

The detailed data that you requested has been provided separately. The table below sets out a summary of the Fund level data from the 31 March 2010 Actuarial Valuation exercise.

Category	Total Number	Male %	Female %
Active	49,496	31.5	68.5
Deferred	34,019	36.4	63.6
Pensioners inc survivors & depend	41,359	43.1	56.9
Total	124,874	37.0	63.0

The split between full time and part time active members was:

Full time actives	**29,766**
Part time actives	**19,730**
Total	**49,496**

The average full time equivalent annual salary for the active members at 31 March 2010 was £21,800 and the average actual annual salary figure was £18,400.

The average annual pension for pensioners at 31 March 2010 was £4,640 p.a. and for survivor pensioners was £2,496 p.a.

From the statistics shown above it is evident that females form a substantial majority of all of the membership groups including 68.5% of the current actives.

Independent Public Service Pensions Commission
Lord Hutton's second call for evidence, December 2010

To inform its response to Lord Hutton's second call for evidence, Merseyside Pension Fund created an online survey of its membership to gauge *"employee understanding and choice"*

The survey ran for five day's and consisted of a series eight questions.

1a	**Number of members who responded to the survey**		**1,952**	**4% Fund active membership**
1b	**Age ranges of members**	**39 or under**	**23%**	
		40-49	**31%**	
		50-59	**36%**	
		60 or over	**7%**	
		did not specify	**3%**	

2a Rank in order, the following benefits/attributes of the LGPS

Benefits being based on Final Salary	**1st**
Being fully index-linked	**2nd**
Tax-free lump sum at retirement	**2nd**
Death-in-service payment of 3 times pay	**4th**
Survivors' Pensions	**5th**

2b Value of LGPS benefits, particularly when making career decisions?

Very valuable to the member	**55%**	**87% value the LGPS**
Valuable to the member	**32%**	
Member shows no preference	**11%**	
of little or no value to the member	**2%**	

2c In principle, should a full state pension for along with an LGPS pension ensure an adequate level of income in a person's retirement?

Yes	**81%**
Didn't answer	**18%**
No	**1%**

3a Rank your preference in controlling future public sector pension costs?

An increase in how much I contribute towards the pension	**1st**
Increasing the normal retirement age from 65	**2nd**
A reduction in the level of benefits payable by the Scheme	**3rd**

3b Preference for any new pension Scheme to replace the current LGPS

Pension benefits based upon an average of my pay whilst in the scheme, adjusted by inflation [CARE]	**15%**	
Pension benefits based upon my final years pay for which I would be willing to pay additional contributions [FINAL SALARY]	**39%**	
Pension benefits based upon my contributions and the investment return on them.	**8%**	
Ability for me to pick & choose which benefits I want to pay for.. example, no ill health cover, no survivor benefits	**21%**	**17% no answer**

3c How would you like your existing pension benefits protected?

Calculated as a deferred or "frozen" pension, linked to pay inflation.	**14%**	
Calculated as a deferred or "frozen" pension, linked to price inflation.	**35%**	
An option to transfer benefits into the new scheme by means of an actuarial calculation.	**23%**	
Other suggestion from the member:	**5%**	**23% no answer**

>> The other suggestions from members breakdown into two specific themes:

Deferred pension linked to Final Pay at retirement	**36%**
The member doesn't understand enough of the possible options to make an informed choice….	**64%**

The survey also allowed members to submit a narrative under the heading of *"any further comment on the value of an occupational pension…"*

The Fund received **526** individual comments from the members who completed the survey.
Attached are some selected comments that summarise the general response, and the full responses are within an appendix - please note that these are verbatim and may not necessarily present the view of the Fund"

Generally the comments followed a select number of themes:

1. 'they are unhappy that the pension promise is under threat, negating their retirement planning"
2. 'they chose to work (and stayed) in Local Government on the value of the pension and its integral part of the renumeration package'
3. 'a good occupational pension is essential as state benefits are inadequate alone - it means less drain on the state in the long term (means tested benefits)'
4. 'the LGPS is well managed well by trustworthy people, this gives a feeling of future security'
5. 'young people losing confidence in LGPS and just deciding to not have any occupational pension'

Selected comments from the membership of Merseyside Pension Fund [2010]	
id	*"any further comment on the value of an occupational pension…"*
29	I consider the pension as an integral part of the remuneration package and would strongly resist any detrimental changes to benefits because I believe that it would be a false economy in the long term.(i.e.cost more to recruit and retain if pensions get reduced)
30	If my pension is to be reduced or altered to the detriment then the salary difference between what I have earned in the public sector and what I could have earned in the private sector should be paid to me on my retirement.
46	the ease of use of the lccal government pension, the ability to begin contributions as soon as joing local government, as well as the trustworthiness and dedication of the people controlling the funds has been a signficant factor in removing one of the main worries of working and being prepared to live after retirment.
47	An occupational pension scheme gives an individual an independant income in their retirement, for a lot of individuals it offers a structured savings plan that they would probably never make if it was left to an individual to choose, plan and organise. At a time when welfare benefits are subject to the political whims of the government of the day it offers an independance for the member of the scheme.
48	I have invested 27 years of my working life paying into a pension fund which has been established on the principle of "Defined benefits". Moreover, this is a "funded" scheme with clearly defined Assets. I have accepted, less than industry standard pay (I work in IT, and the public service IT worker has received considerably less salary than their Private sector Counterpart) because, I have chosen to value my Defined income for my retirement future, more essential than a immediate "gain" of higher pay. In good faith, I have chosen to supplement my contributions, by paying an additional 14% to buy in the maximum allowable years under the scheme. This is because, I have a strong desire to be able to support myself independent of State benefits (except the state OAP for which I have paid) in my old age. If I had known that my agreed benefits would be eroded, at the outset, I would have not chosen to contribute. Younger Generations will be making that decision now. If the security of the occupational pension is removed, then expect less people to take an active role in providing for their old age - and more choosing to relie exclusively on state benefits.
85	higher pay witihni my area of work (Architecture) traditionally has been higher in the private sector than public; i chose to work for the PS for the right pension at the end of muy working life, and furthermore provide a profesional service to my community.
89	I believed when I joined the Pension Scheme over 20 years ago That this Pension would make me comfortable in my old age. Over the years this seems less and less likely. The Pension Scheme should not be messed about with and the benefits that you sign up for when you join shold be there as your right.
137	It is unfair for members to contribute during their working life and then find that the goal posts have been moved as they draw nearer to retirement age.
169	This occupational pension is extremely valuable, I think the most important thing about it is the fact it is managed by an organisation I trust to keep my pension safe. It is almost like having a centralised pension service.
188	I think that if adequate pension provision is not safeguarded within the public sector it will invariably impact socially when our members come to take their pension entitlement at the point of retirement, this will have a knock on effect on the taxpayer, and the provision and cost to support social care to those who suffer from poor health as a result of low income. The two are closely linked. The LGPS is fully funded and with the sliding scale of employee contributions currently in force, we make adequate provision as it is. The other unfunded pension schemes such as the TPA their contribution rate is set at 6.4% the principal civil service non contrib, so how is it fair to increase pension contributions accross the board without taking our current rate of contributions into account.
190	I feel that when you sign up to a pension scheme of any kind, a commitment is made made by both parties. I understand that people are living longer, but surely commitments made should be honoured. If any changes are to be made, the current scheme should be closed and a new scheme opened.
221	Occupational pension should allow a comfortable level of income. whereas a state pension should ensure an adequate level of income.

224	My parents are only surviving because of my fathers LGPS pension.Any changes to the entitlements would be devastating. I am dreading the propect of how i will live on my LG pension and state pension.Quality of life, & stanadard of living is being eroded not improved. Future changes will have a detrimental effect to the LG workers like myself who are already being squeezed as a result of economic carnage caused by others who have the luxury of huge pensions & bonus's. They are completly out of touch with those who are struggling.
255	In my opinion this is a key recruitment tool for our organisation.
268	It provides certainty in an uncertain furture
456	The state pension should provide an adequate level of income in retirement - LGPS should be reflect contributions made to it, length of service and other financial benefits it offerred at the time of joining and paying in to such a voluntary pension scheme. In my case I joined this scheme 22 years ago due to the benefits it offerred. These benefits are slowly being withdrawn which is suggesting to me that it has been mis-sold to me and other members alike. No one has compensated me or made any mention of compensations for this other than to change amounts of money paid as a death benefit - what use it this to me? Its money while I am alive (in retirement) that matters!! I joined this scheme to look after me financially over and above the state pension in my retirement.
461	Unlike many other public sector organisations I make a contribution towards my pension, which following the last review was increased. It is my understanding that through prudent investment the Merseyside pension fund is fully financed and well managed. This is one of the reasons why I continue to choose to be employed (at the moment) in Local Government. I value my pension, as I hope it will provide my family and I with sufficient resources to live reasonably in my retirement and feel that despite doing all of the things asked of and imposed on me I am in constant fear that by the time I retire my pension will be of little value when I compare it to the terms and conditions when I originally joined the scheme.
464	I am very concerned about the way pensions have gone and are going. A lot of the problems encountered were due to companies taking advantage of "pension holidays" and not due to individuals milking the system as some would have us believe.
626	I have been with this pension since 1983 when I first started working. During that time I have seen so many people lose their pensions through private pensions going bust, economic downfalls, and the government telling business's to take a 'pension holiday'. Most of the above caused by the Tories. Now in 2010 they are doing the same. It is the low paid workers losing out yet again. People who work hard are penalised time and time again. I bet the MP'S who put these policies into operation make sure that they are all right when it comes to their retirement. It always I'm all right Jack but the rest of us can go to hell.When I retire I know my pension will not be much but it will probably be the difference between poverty & living above the bread line.
684	In relation to the question "In principle, should a full state pension along with an LGPS pension, ensure an adequate level of income in a person's retirement?" Of course it should! Having contributed a four figure sum each year over a period of what will hopefully amount to 40+ years, we have a right to adequate pension provision. WE HAVE PAID FOR IT!! Why should be be penalised or jeapordised in any way, when there are millions in this country who pay nothing for the duration of their working lives, and worse still, those who contribute nothing to society and are too work-shy to get out of bed in the morning. These individuals serve simply to drain the nations resources. This begs the question, "Should they be ensured an adequate level in their retirement?" That's if they bothered to to go out and find work in the first place and didn't retire at 16!
1002	Pensions are unnecessarily confusing and given government and scheme changes over a 50 year working life, a real gamble. As a 30-something I have no idea if the government and economics will ever let me retire (I'm anticipating 70+). Pensions have to be affordable otherwise people opt out and worry about it when it is too late. As a young person should I worry about a pension I may never be able to claim (or won't provide a sufficient income) or just buy property because I need somewhere to live now and can sell it when I get old? It's a tough choice for low-paid people. Occupational pensions do at least remove some of the confusion, as long as your employer looks after it properly it should be one less thing to worry about. I feel the days of compulsory pension scheme membership is not far off - whether you can afford it or not.
1007	It is only fair that people who have worked for most or all of thier life and also paid into a pension scheme can look forward to a decent and relevant income on retirement - otherwise what is the incentive to work/ prepare for that day if in old age you stand to receive the same or similar to those who have not worked through choice or contributed - it is effectively being taxed twice -once while you work and then again in old age if a decent occupational pension is not available.

New-look Local Government Pension Scheme from April 2008

During summer 2006, Merseyside Pension Fund conducted a postal survey to all of the membership in regard the government (DCLG) consultation on a New-look LGPS.

5% of the active membership responded with the following results:

1.1 Four options of future pension arrangement, members were asked to pick a preference.

Scheme A	Final salary 1/80 pension & 3/80 auto lumpsum	**59%**
Scheme B	Final salary 1/60 pension with 12:1 commutation to lumpsum	**25%**
Scheme C	Career average with 12:1 commutation to lumpsum	**9%**
Scheme D	Hybrid, default Career average, pay 3% more for Final Salary	**7%**

1.2 Would you support an increase in employee contributions for a better benefit package?

Yes	**70%**
No	**30%**

1.3 Do you support the introduction of tiered employee contribution rates?

Yes	**45%**
No	**55%**

1.4 Do you support the introduction of tiered ill health retirement rules?

Yes	**39%**
No	**61%**

This page is intentionally left blank

WIRRAL COUNCIL

PENSIONS COMMITTEE

11 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

PASSIVE MANAGEMENT

1. EXECUTIVE SUMMARY

1.1. This purpose of this report is to request that Members approve the commencement of a procurement exercise for passive management and the use of AON Hewitt as consultants for the selection exercise.

2. BACKGROUND

2.1 Members agreed on 23 March 2010 to defer commencement of this exercise until after the triennial valuation and review of asset allocation.

2.2 The asset allocation report agreed by Pensions Committee on 16 November 2010 made one small change to the strategy for passive management, a small reduction in UK equities as part of an overall reduction in allocation to UK equities.

2.3 The current assets managed on a passive basis by external managers are detailed below.

Asset Class	**Manager**	**Allocation**	**Value at 30 November 2010**
Index Linked Gilts	Legal & General	12%	£476.1m
UK Equities	Legal & General	8%	£445.9m
US Equities	UBS	8%	£379.7m

This allocation is at 1 January 2011 following the agreed changes to the asset allocation.

3. USE OF CONSULTANTS

3.1 Members have agreed a framework list for investment consultants. Officers took two quotes from this list Hymans Robertson and AON Hewitt to complete this exercise. AON Hewitt was the lowest bid at £20,000 and will therefore conduct this search.

4. PROCUREMENT PROCESS

4.1 The procurement process will start in January 2011 when tenders will be invited in the OJEU. In addition to the consultants, the Procurement Team will provide support for this exercise. It is intended to use an electronic system for receipt of tenders.

4.2 The process should be completed in time for a report to be made to the June meeting of the Pensions Committee.

4.3 The criteria to be used for the assessment of tenders will be as follows.

Criteria	**Percentage Allocation**
Performance	**25%**
Proven track record of returns within 0.15% of benchmarks on a consistent basis across all global asset classes	20%
Track record of providing positive performance (up to 0.1% above benchmark)	5%
Price	**35%**
Price expressed as a % of assets under management	
Additional Services	**20%**
Ability to provide asset transfers and temporary management of assets	10%
Ability to comply with policies on Responsible Investment	5%
Client Servicing	5%
Risk Control	**20%**
Scale and ongoing viability of the organisation to take on the mandate	10%
Security of Assets	10%
TOTAL	**100%**

5. FINANCIAL IMPLICATIONS

5.1. There are no additional revenue issues arising directly from this report; any costs will be met from the budget for 2011/12. The investments proposed are within the parameters of the strategic asset allocation.

6. STAFFING IMPLICATIONS

6.1. There are none arising directly from this report.

7. EQUAL OPPORTUNITY IMPLICATIONS

7.1. There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising directly from this report.

9. COMMUNITY SAFETY IMPLICATIONS

9.1. There are none arising directly from this report.

10. LOCAL MEMBER SUPPORT IMPLICATIONS

10.1. There are none arising directly from this report.

11. LOCAL AGENDA 21 IMPLICATIONS

11.1. There are no implications in this report.

12. PLANNING IMPLICATIONS

12.1. There are none arising directly from this report.

13. BACKGROUND PAPERS

13.1 Review of Contracts and Arrangements for Procurement of Investment Managers – July 2007.

13.2. Appointment of Consultants for the Selection of Investment Managers Managers – March 2008

13.3. Asset Allocation – November 2010.

14. RECOMMENDATIONS

14.1 That Members approve the commencement of the procurement exercise for passive management.

14.2 That Members approve the appointment of AON Hewitt from the framework list as consultants for this exercise.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/260/10

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 17

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 20

Document is Restricted

This page is intentionally left blank