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WIRRAL

Pensions Committee

Date:	**Monday, 27 June 2011**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
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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 - 8)**

   To receive the minutes of the meeting held on 29 Mar, 2011.

3. **APPOINTMENT OF VICE CHAIR**

4. **LGC CONFERENCE NEWPORT (Pages 9 - 10)**

5. **MERSEYSIDE PENSION FUND AUDIT FEES (Pages 11 - 14)**

6. **BANK SIGNATORIES (Pages 15 - 20)**

7. **INTERNAL DISPUTE RESOLUTION PROCEDURE (Pages 21 - 24)**

8. **MANAGEMENT OF PRIVATE EQUITY (Pages 25 - 28)**

9. **BANKING CONTRACT (Pages 29 - 32)**

10. **LOCAL GOVERNMENT PENSION SCHEME REFORM (Pages 33 - 52)**

11. **REPRESENTATION ON OUTSIDE BODIES (Pages 53 - 56)**

12. TREASURY MANAGEMENT ANNUAL REPORT (Pages 57 - 62)

13. INVESTMENT PERFORMANCE 2010-11 (Pages 63 - 66)

14. CARBON REDUCTION (Pages 67 - 70)

15. FAIR DEAL POLICY (Pages 71 - 78)

16. PASSIVE MANAGEMENT CONTRACT (Pages 79 - 82)

17. PRIVATE EQUITY TRAINING (Pages 83 - 86)

18. GOVERNANCE POLICY (Pages 87 - 102)

19. EQUITABLE LIFE (Pages 103 - 110)

20. PUBLIC ACCOUNTS COMMITTEE (Pages 111 - 154)

21. CASTLE CHAMBERS (Pages 155 - 158)

22. 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.

23. INVESTMENT MONITORING WORKING PARTY MINUTES (Pages 159 - 172)

24. MANAGEMENT OF PRIVATE EQUITY (Pages 173 - 176)

25. SOUTHERN ELECTRIC CONTRACTING (Pages 177 - 180)

26. ACTUARIAL TENDERS (Pages 181 - 184)

27. INVESTMENT ADVISOR TENDERS (REPORT) (Pages 185 - 188)

28. INVESTMENT ADVISOR TENDERS (APPENDIX) (Pages 189 - 192)

29. BALFOUR BEATTY WORKPLACE (Pages 193 - 196)

30. BOND REVIEW (Pages 197 - 202)

31. PEOPLES CENTRE (Pages 203 - 206)

32. **CASTLE CHAMBERS (Pages 207 - 208)**

33. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

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PENSIONS COMMITTEE

Tuesday, 29 March 2011

Present:	Councillor	G Watt (Chair)	
	Councillors	C Povall G Davies T Harney S Williams (in place of Cllr Peter Johnson)	AER Jones R Moon H Smith P Hayes (in place of Cllr Denis Knowles)
	Councillors	N Keats, Knowsley Council A Ibbs, Sefton Council	
		Mr P McCarthy (Non District Council Employers)	
In attendance:		Paul Wiggins, Unison	
Apologies	Councillors	Joe Hanson William Anderton Peter |Johnson	AR McLachlan Denis Knowles

80 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

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

Councillor Anne Ibbs declared a prejudicial interest in Item 20 – Admission body Application – Northgate Managed Services – as the company concerned had secured an I.T. contract with a Sefton school.

Councillor Steve Williams declared a personal interest in general as his wife was a member of the Pension Fund.

Councillor George Davies declared a personal interest in general as his wife was a member of the Pension Fund.

81 **MINUTES**

The Director of Law HR and Asset Management submitted the minutes of the meeting held on 11 January, 2011.

Resolved – That the minutes be received.

82 **NATIONAL ASSOCIATION OF PENSIONS FUND CONFERENCE**

The Director of Finance requested nominations to attend the National Association Pension Fund (NAPF) Local Authority Conference, to be held in Birmingham, from 16 May to 18 May 2011.

Resolved That the Chair and Vice-Chair of the Pensions Committee be nominated to attend the National Association Pension Fund (NAPF) Local Authority Conference, to be held in Birmingham, from 16 May to 18 May 2011.

83 **LGPS TRUSTEES CONFERENCE**

The Director of Finance submitted a report that requested the Committee to consider attendance at the LGPS trustees conference organised by the Local Government Employers to be held in Bournemouth on 8 and 9 June 2011.

Several members of the Committee raised concerns that the date in question fell after the date of the Local Government Elections. The Director responded that places needed to be booked in advance for the conference so names were being sought now.

Resolved – That Councillors Geoffrey Watt, Adrian Jones and Cherry Povall submit their names and Councillor George Davies confirm his name with the Director of Finance as attendees at the LGPS trustees conference organised by the Local Government Employers to be held in Bournemouth on 8 and 9 June 2011.

84 **CIPFA ANNUAL CONFERENCE**

The Director of Finance submitted a report that requested nominations to attend the CIPFA Annual Conference, to be held in Birmingham from 5 July to 7 July 2011.

Resolved That the Committee confirms that a representative of the Pensions Committee attend the CIPFA Annual Conference, to be held in Birmingham from 5 July to 7 July 2011.

85 **BANK SIGNATORIES**

The Director of Finance sought approval to amend the nominated personnel on the existing bank mandates.

Resolved – That the nominated personnel on the existing bank mandates be approved in accordance with those listed in the report.

86 **PUBLIC SERVICE PENSIONS COMMISSION**

The Director of Finance submitted a report that informed Members of the recommendations of the inquiry conducted by Lord Hutton into the future provision of public service pension schemes including the Local Government Pension Scheme.

The Commission's final report had been published and delivered to the Government on Thursday 10 March 2011.

The Director of Finance noted that the objectives of the review undertaken by Lord Hutton had been to ensure that pension provision in the public sector was affordable and sustainable in the long term and to identify any short term cost savings.

He further noted that provision of the Pensions Administration service by the Council in its role as Administering Authority of the Merseyside Pension Fund under Regulation 30 and Schedule 4 of the LGPS (Administration) Regulations 2008 was a statutory duty.

The Director of Finance reported that the Department for Communities and Local Government (DCLG) would be carrying out consultation to determine how the recommendations made in the report should be implemented in respect of the LGPS.

The report outlined the headline recommendations of the Commission and included a question and answer fact sheet as an appendix.

Resolved - That the report be noted.

87 LGPS UPDATE

The Director of Finance submitted a report that informed Members of legislative and other developments impacting on the Local Government Pension Scheme (LGPS). It was noted that the most significant development was the publication of the Public Service Pensions Commission final report which was the subject of a separate report to the Committee.

The Director of Finance also circulated a copy of the response to the Chancellor dated 16 February, 2011 from the Local Government Association which included a table showing the proposed employee contribution rate to the LGPS.

Resolved - That the report be noted.

88 MEMBERS' TRAINING

The Director of Finance submitted a report that informed Members of the next training day which was arranged to take place at the Cunard Building on 14 June 2011.

Resolved - That Members attend the next training day at the Cunard Building on 14 June 2011.

89 CIPFA KNOWLEDGE AND SKILLS FRAMEWORK - INTERIM COMPLIANCE STATEMENT

The Director of Finance submitted a report that proposed a response to the best practice guidance issued by CIPFA in relation to the compliance of Local Government Pension Schemes (LGPS) with the Knowledge & Skills Framework. A draft statement of compliance was submitted as an appendix.

It was reported that the Local Government Pension Scheme Administering Authorities were required to report on a 'comply or explain' basis their adoption of, and compliance with, the Myners Principles. The first of these principles, effective decision making, required LGPS funds to ensure that:

- decisions were taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge advice they receive, and manage conflicts of interest.

It was reported that the compliance statement represented a key element in complying with this principle.

Resolved – That the inclusion of an interim compliance statement in the annual report be approved.

90 EXTENSION OF PIRC CONTRACT

The Director of Finance sought approval for a six month extension of the contract with PIRC to provide corporate governance research and comprehensive proxy voting services.

Resolved -

(1) That the extension of the contract with PIRC for the provision of corporate governance research and comprehensive proxy voting services to 30 September 2011 be approved.

(2) That officers be authorised to commence a procurement exercise for the re-tendering of this contract, and to report a recommendation for appointment to the September 2011 meeting of the Pensions Committee.

91 CHARGING POLICY

The Director of Finance submitted a report that reviewed current charges made by the MPF for services provided to service users and employers.

It was noted that provision of the Pensions Administration service by the Council in its role as Administering Authority of the Merseyside Pension Fund under Regulation 30 and Schedule 4 of the LGPS (Administration) Regulations 2008 was a statutory duty.

Resolved – That the existing charges, as set out in the schedule at Appendix1 to the report, be confirmed.

92 GOVERNANCE AND RISK WORKING PARTY - MINUTES

The Director of Finance provided Members with the minutes of the Governance and Risk Working party held on 26 January 2011.

Resolved –

(1) That the minutes of the Governance and Risk Working party held on 26 January 2011 be agreed.

(2) That the next meeting of the Governance and Risk Working party be arranged for 14 July 2011.

93 **241 BROOKLANDS ROAD, WEYBRIDGE, SURREY - AIR CONDITIONING**

The Director of Finance informed Members of the outcome of a recent tendering exercise in respect of air conditioning plant replacement works for 241 Brooklands Road, Weybridge, owned by MPF as part of the direct property investment portfolio. The tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

Resolved – That the acceptance by the Director of Finance under delegation of the lowest tender for air conditioning plant replacement works at 241 Brooklands Road, Weybridge be noted.

94 **GLOBAL CUSTODIAN SERVICES**

The Director of Finance submitted a report regarding global custodian services noting that Merseyside Pension Fund used a global custodian to ensure the security of assets. The report proposed, for operational reasons, an extension of the current contract on the existing terms and conditions.

Resolved –

(1) That the extension of the existing global custodian contract to 31 March 2012 be approved.

(2) That the commencement of a procurement process for global custodian services from 1 April 2012 for a period of three years plus an optional extension of two years be approved.

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

Resolved – That the public be excluded from the meeting on the grounds that the following matters to be considered contain exempt information by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

96 **PRIVATE EQUITY PROGRAMME 2011-14**

The Director of Finance submitted a report to request Members to approve the Private Equity Programme for 2011/14 including the proposed investments for 2011.

Resolved –

(1) That the Private Equity Programme for 2011/14 including the proposed investments for 2011 be noted and that it also be noted that the Director

of Finance will make the individual investments under delegation and may make changes as circumstances arise, which may be particularly pertinent further out in the programme.

(2) That the Pensions Committee note that it will receive annual updates on the private equity programme and that reports will continue to be made to the IMWP on a quarterly basis.

97 **TAX RECOVERY**

The Director of Finance reported that KPMG had assisted MPF with the submission of specialist reviews of domestic and European tax arrangements. He reported that they have co-ordinated submissions to UK and European tax authorities across Local Government and private pension funds to claim additional re-imbursements, usually involving test cases under European law.

The Director of Finance submitted a report that proposed an extension of the existing contract with KPMG to enable a review, and where appropriate, submission of filing returns, claims for reimbursements and / or allowances for losses from the Internal Revenue Service (IRS), the tax authority for the United States of America.

Resolved –

(1) That the extension of the existing contract with KPMG to include a review, and appropriate follow-up of involvement with United States tax issues be approved.

(2) That funding for this initiative, to come from the additional income received and expected to be received from existing European and UK submissions, be approved.

(3) That Members receive regular progress reports on these initiatives.

98 **INVESTMENT MONITORING WORKING PARTY-MINUTES**

The Director of Finance submitted the minutes of the Investment Monitoring Working Party held on 23 February 2011.

Resolved – That the minutes of the IMWP, attached as an appendix to the report be noted.

99 **ADMISSION BODY APPLICATION - NORTHGATE MANAGED SERVICES**

The Director of Finance informed Members of his decision taken under delegation, to approve the application received from Northgate Managed Services for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured an I.T. contract at the Sefton School, Litherland High School, for the period 21 February 2011 to 20 February 2017.

Resolved - That the approval of the application for admission to the Merseyside Pension Fund of Northgate Managed Services be noted.

100 **ADMISSION BODY APPLICATION - ELITE CLEANING AND ENVIRONMENTAL SERVICES**

The Director of Finance informed Members of his decision taken under delegation, to approve the application received from Elite Cleaning & Environmental Services for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had taken on the cleaning services at Birkenhead 6th Form College with effect from 1 April 2008.

Resolved - That the Pensions Committee notes the approval of the application for admission to the Merseyside Pension Fund of Elite Cleaning & Environmental Services.

101 **ADMISSION BODY APPLICATION - TAYLOR SHAW**

The Director of Finance informed Members of his decision taken under delegation, to approve the application received from Taylor Shaw for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured the catering contracts at two Liverpool Schools, King David High and King David Primary with effect from 1 September 2010.

Resolved - That the approval of the application for admission to the Merseyside Pension Fund of Taylor Shaw to undertake the catering at two Liverpool schools be noted.

102 **STAFFING REPORT**

Further to Minute No 74 the Director of Finance informed Members of the progress made in revising the staffing structure.

Resolved – That the report be noted.

103 **LEASE OF PART OF CASTLE CHAMBERS, CASTLE STREET, LIVERPOOL**

With the consent of the Committee this item was withdrawn.

104 **VOTE OF THANKS**

The Chair, noting that this was the last Pensions Committee for the municipal year, offered the Committee's good wishes to Councillor Anne Ibbs (Sefton Council) as she would not be seeking re-election in the forthcoming elections.

The Chair also thanked all members and officers for their support and hard work throughout the year.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT	**LGC INVESTMENT CONFERENCE**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1. This report requests any nominations to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Newport from 7 to 9 September 2011.

2.0. RECOMMENDATION

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

3.0. REASON FOR RECOMMENDATION

3.1. To decide whether the Committee wishes to be represented at a conference.

4.0. BACKGROUND AND KEY ISSUES

4.1. The conference is scheduled for 7 to 9 September 2011. It is likely that delegates would require overnight accommodation in Newport for 7 and 8 September.

4.2. The attendance at this conference has traditionally been in the ratio 1:1:1. In recent years the independent adviser has also attended the conference and I would recommend that this decision is continued.

4.3. Conference costs including accommodation are £999 plus VAT per person, with travel an additional cost.

5.0. RELEVANT RISKS

5.1. The Authority is required to prove that Trustees have been adequately trained. This conference is a recognised training opportunity.

6.0 OTHER OPTIONS CONSIDERED

6.1. No other options have been considered.

7.0. CONSULTATION

7.1. There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

8.0. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1. There are none arising out of this report.

9.0. RESOURCE IMPLICATIONS; FINANCIAL; IT; STAFFING AND ASSETS

9.1. The cost of attendance plus two nights accommodation will be £999 plus VAT per delegate excluding travel which can be met from the existing Pension Fund Budget.

10. LEGAL IMPLICATIONS

10.1. There are none arising out of this report.

11. EQUALITIES IMPLICATIONS

11.1 There are none arising out of this report.

11.2. Equality Impact Assessment (EIA) is not required.

12.0. CARBON REDUCTION IMPLICATIONS

12.1. There are none arising out of this report.

13. PLANNING AND COMMUNITY SAFET IMPLICATIONS

13.1. There are none arising out of this report.

FNCE/97/11

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APPENDICES

NONE

REFERENCE MATERIAL

NONE

SUBJECT HISTORY

Council Meeting	Date
Pensions Committee Pensions Committee	28 June 2010 18 June 2009

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**MERSEYSIDE PENSION FUND AUDIT FEES**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report confirms that the fees to be charged by the Audit Commission for the audit of the accounts and financial statements of Merseyside Pension Fund for the year ended 31 March 2011 total £54,065. This is consistent with the indicative fees set out in the Audit Opinion Plan presented to the Pensions Committee on 11 January 2011.

2.0 RECOMMENDATION

2.1 That Members note the fees of £54,065 for the audit of the accounts and financial statements of Merseyside Pension Fund for the year ended 31 March 2011.

3.0 REASON FOR RECOMMENDATION

3.1 There is a new statutory scale of fees which the Audit Commission applies. For multi employer pension funds, this is based on two elements: a fixed element of £33,300 (the same as in 2009/2010) and a variable element, based on 0.00055% of net assets.

4.0 BACKGROUND AND KEY ISSUES

4.1 The audit of MPF is treated as a separate audit from the Wirral Council audit. Consequently a separate Audit Plan is issued, and a separate auditor’s report is issued to those charged with governance.

4.2 The Audit Opinion Plan for the audit of the accounts for the year ended 31 March 2011 was presented to the Pensions Committee on 11 January 2011.

4.3 The variable element is calculated by reference to the 2008/09 closing net asset balance in the audited fund account.

4.4 The fee includes a one-off charge of £1400 to reflect the additional audit time required for gaining assurance that the investment balances were accurately transferred form the old “Shareholder” system to the successor “OpenAir”.

4.5 For 2010/2011 the Audit Commission will absorb the extra audit costs arising from the transition to International Financial Reporting Standards (IFRS) within the current cost envelope.

5.0 RELEVANT RISKS

5.1 There no risk associated with noting these fees. Should the draft accounts required a material increase in auditing time due to errors or omissions, then there is a risk that the fee could increase.

6.0 OTHER OPTIONS CONSIDERED

6.1 As this is a statutory issue, no other options were considered.

7.0 CONSULTATION

7.1 There was no consultation with other bodies.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The costs will be funded from the MPF budget. There are no staffing or assets implications.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None apply.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

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APPENDICES

None.

FNCE/151/11

REFERENCE MATERIAL

Audit Opinion Plan: Pensions Committee 11 January 2011

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**11 January 2011**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**BANK AND OTHER AUTHORISED SIGNATORIES**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the proposed changes to authorised signatories at Merseyside Pension Fund, following the departure of some of the existing authorisers.

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

1.3 The report also refers to operational decisions regarding authorised signatories for other transactions and procedures, by officers nominated by the Director of Finance. However, for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or as an overseas jurisdiction, putting such arrangements in the public arena can avoid administrative inconvenience.

2.0 RECOMMENDATIONS

2.1 That the following officers be authorised to open, close and amend bank accounts, authorise instructions for the payment of benefits and for investment transactions, for the accounts with the bankers (Royal Bank of Scotland), with the Global Custodian (State Street), and with other financial institutions for the purpose of making and redeeming deposits, “open” cheques, and counter sign cheques over £10,000:

Director of Finance	Ian E. Coleman
Deputy Director of Finance	David L.H. Taylor-Smith
Head of Financial Services	Thomas W. Sault
Head of Benefits, Revenues and Customer Services	Malcolm J. Flanagan
Head of IT Services	Geoffrey W. Paterson
Head of Support Services	Michael J. Fowler
Principal Pensions Officer	Yvonne M. Caddock
Members Services Manager	Margaret M Rourke
Operations Manager	Guy W. Hayton

2.2 That Members confirm that the following officers have powers to authorise investment decisions and relevant documentation, but not to authorise the transfer of money:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Investment Manager	Patrick G. Dowdall

2.3 That Members note that, for the purposes of due diligence verification, Patrick G. Dowdall, Investment Manager, is designated an authorised officer.

2.4 That Members confirm, for the avoidance of doubt, that the Director of Finance can designate officers of MPF to exercise powers of attorney on behalf of MPF and Wirral Metropolitan Borough Council, which, from 1July 2011, requires two of the following officers:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Principal Pensions Officer	Yvonne M. Caddock
Investment Manager	Patrick G. Dowdall

3.0 REASONS FOR RECOMMENDATIONS

3.1 The following authorising officers will leave Wirral Council by 30 June 2011, and will have their powers to authorise cancelled: Peter G. Mawdsley, Gerard F. Moore and Kevin J. Greenough.

3.2 For operational reasons, it is necessary to supplement the remaining list. Due to delays in approval of the consequential restructuring, at the time of reporting, it has not yet been possible to appoint to two posts for which I will be requesting approved signature status. A futher report will therefore be presented to the next meeting of this Committee.

4.0 BACKGROUND AND KEY ISSUES

4.1 The current approved signatories to the Royal Bank of Scotland and State Street accounts are:-

Director of Finance	Ian E. Coleman
Deputy Director of Finance	David L.H. Taylor-Smith
Head of Financial Services	Thomas W. Sault
Head of Benefits, Revenues and Customer Services	Malcolm J. Flanagan
Head of IT Services	Geoffrey W. Paterson
Head of Support Services	Michael J. Fowler
Deputy Head of Pension Fund	Peter G. Mawdsley
Financial Controller	Gerard F. Moore
Benefits Manager	Kevin J. Greenough
Members Services Manager	Yvonne M. Caddock

4.2 For the accounts with the bankers (Royal Bank of Scotland) and the Global Custodian (State Street) approval is requested for the following signatories:-

Director of Finance	Ian E. Coleman
Deputy Director of Finance	David L.H. Taylor-Smith
Head of Financial Services	Thomas W. Sault
Head of Benefits, Revenues and Customer Services	Malcolm J. Flanagan
Head of IT Services	Geoffrey W. Paterson
Head of Support Services	Michael J. Fowler
Principal Pensions Officer	Yvonne M. Caddock
Members Services Manager	Margaret M Rourke
Operations Manager	Guy W. Hayton

4.3 These responsibilities will include powers to open, close and amend bank accounts, authorise instructions for the payment of benefits and for investment transactions, for the accounts with the bankers (Royal Bank of Scotland), and with the Global Custodian (State Street), and with other financial institutions for the purpose of making and redeeming deposits, “open” cheques, and counter sign cheques over £10,000:

4.4 For reasons of internal control, officers are empowered to authorise investment decisions and relevant documentation, but without powers to authorise the transfer of monies:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Investment Manager	Patrick G. Dowdall

4.5 Other officers can make investment decisions up to their limits as specified in the Compliance Manual. Following the staffing changes, an updated version of the Compliance Manual should be presented to Committee in November 2011.

4.6 Authorisation of the routine monthly pension payroll is subject to separate internal arrangements by personnel nominated under the operational responsibilities of the Director of Finance. These cover both the release of the monthly domestic BACSTEL payments and the release via Citi bank of the payment of pensions overseas.

4.7 On 18 June 2009, Pensions Committee, for the avoidance of doubt, formally confirmed that the Director of Finance can designate officers of MPF to exercise powers of attorney, with a minimum of two signatures from four designated officers. As two of the nominees, Peter G Mawdsley and Gerard F Moore are retiring, replacements are necessary. It is therefore proposed that from 1 July 2011, the following officer shall have such powers:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Principal Pensions Officer	Yvonne M. Caddock
Investment Manager	Patrick G. Dowdall

4.8 Investee companies, financial services providers and overseas jurisdictions perform due diligence work on MPF as an investor and organisation. To facilitate the provision of relevant information, it is proposed that in addition to those mentioned in paragraph 4.2 above, the following officer can duly certify:

Investment Manager	Patrick G. Dowdall

5.0 RELEVANT RISKS

5.1 Without the appropriate number of authorising officers, there is a risk of delayed settlement of trades. This could manifest itself both as financial risk, as there could be a cost to delayed settlement, and as a reputational risk to MPF in financial markets.

6.0 OTHER OPTIONS CONSIDERED

6.1 The option of operating with fewer authorisers, would increase the dangers of transactions in financial markets not settling in a timely manner due to delays in their authorisation.

7.0 CONSULTATION

7.1 No consultation took place with other organisations or stakeholders. .

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 There are no additional resource IT or staffing implications in this proposal.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none within these proposals for change,

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

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FNCE/144/11

APPENDICES

None

REFERENCE MATERIAL

List of Authorised Signatories as at 1 April 2011

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	29 March 2011
Cabinet	17 March 2011
Pensions Committee	22 September 2009
Pensions Committee	18 June 2009

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT	**INTERNAL DISPUTE RESOLUTION PROCEDURE**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION	**NO**

1.0 **EXECUTIVE SUMMARY**

1.1. This report seeks to authorise nominated officers to handle appeals at stage 1 and stage 2 of the Internal Dispute Resolution Procedure (IDRP) in respect of the Pension Fund.

2.0 **RECOMMENDATION**

2.1. That the following officers be authorised to act on behalf of the Administering Authority to consider appeals at either stage 1 or stage 2 of the Internal Dispute Resolution Procedure:

Ian Coleman	Director of Finance
David Taylor-Smith	Deputy Director of Finance
Michael Fowler	Head of Support Services
Peter Wallach	Head of Merseyside Pension Fund
Yvonne Caddock	Principal Pensions Officer

3.0. **REASON FOR RECOMMENDATION**

3.1. The list of officers authorised to act on behalf of the Administering Authority to consider appeals at either stage 1 or stage 2 of the Internal Dispute Resolution Procedure requires amendment due to early retirements.

4. **BACKGROUND AND KEY ISSUES**

4.1. Section 50 of the Pensions Act 1995 and the Occupational Pensions Schemes (Internal Dispute Resolution Procedures) Regulations 1996, requires the Local Government Pension Scheme to operate a two stage procedure for the resolution of disagreements.

4.2. The Regulations require the individual scheme employers to consider any stage 1 appeal against a decision taken by them. If the applicant is dissatisfied with the stage 1 decision then he or she may appeal further to the Administering Authority which is responsible for consideration of the stage 2 appeal.

4.3. Both stage 1 and stage 2 appeals against decisions taken by the Pension Fund need to be considered by the persons appointed by the Administering Authority to undertake this role. The same appointed person cannot consider an appeal from an individual at both the first and second stage of the process.

4.4. At the present the panel of Appointed Persons established by the Merseyside Pension Fund consists of:-

Ian Coleman	Director of Finance
David Taylor-Smith	Deputy Director of Finance
Stephen Rowley	Head of Support Services
Peter Wallach	Head of Merseyside Pension Fund
Peter Mawdsley	Deputy Head of Merseyside Pension Fund

4.5. Following the transfer of Stephen Rowley to the Department of Adult Social Services, I recommend that Michael Fowler, Head of Support Services, be included on the panel of appointed persons.

4.6. Following the retirement of Peter Mawdsley from 30 June 2011, I recommend that Yvonne Caddock, Principal Pensions Officer, be included on the panel of appointed persons.

5.0. RELEVANT RISKS

5.1. If the Pension Fund does not have an appointed person available to consider an appeal then there is a risk of criticism from the Pensions Ombudsman.

6.0. OTHER OPTIONS CONSIDERED

6.1. Any officer could be appointed to consider appeals but I recommend these officers as having the most relevant experience.

7.0 CONSULTATION

7.1 No specific consultation has been undertaken with regard to this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no direct implications arising from this report.

9.0 RESOURCE IMPLICATIONS

9.1 There are no additional requirements.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 **EQUALITIES IMPLICATIONS**

11.1 There are none arising directly from this report.

11.2 Equality Impact Assessment (EIA) is not required for this report.

12.0 **CARBON REDUCTION IMPLICATIONS**

12.1 There are none arising directly from this report.

13.0 **PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 None arising from this report.

FNCE/123/11

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APPENDIX

REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	**Date**
Pensions Committee	31 March 2008

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**PRIVATE EQUITY : PORTFOLIO MONITORING**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of contractual arrangements for the monitoring of the overall Private Equity portfolio of MPF by Capital Dynamics.

1.2 The appendix to the report, a letter setting out the terms and conditions under which Capital Dynamics will monitor the overall private equity portfolio of MPF contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 RECOMMENDATION

2.1 That Members note the letter contained in the appendix to this report which sets out the contractual arrangements through which Capital Dynamics will conduct monitoring.

2.2 This is being implemented through an agreement between the independent trustees of the Capital Dynamics Merseyside Private Equity Fund, Capita Trust Company and Capital Dynamics who are the managers of this fund.

3.0 REASON FOR RECOMMENDATION

3.1 The purpose for this recommendation is to comply with Audit Commission recommendations from the 2009/10 Annual Governance report.

4.0 BACKGROUND AND KEY ISSUES

4.1. The letter included in the Exempt agenda sets out the agreement between Capita Trust Company and Capital under which Capital Dynamics will provide services to MPF as the sole owner of the Capital Dynamics Merseyside Private Equity Fund (CDMPEF).

4.2 Members will be aware that MPF has a long standing private equity programme and that Capital Dynamics play a major part in this programme, both as a key manager and as an adviser and providing key support services including valuations and performance analysis plus reconciliations of cash flows. There is a particular way in which this relationship is structured.

- Investments made by MPF into underlying Capital Dynamics funds are made through the vehicle Capital Dynamics Merseyside Private Equity Fund

- Capita Trust Company are the trustee for this vehicle and provide custody and administration services

- MPF is the owner of Capital Dynamics Merseyside Private Equity Fund. This represents approximately 40% of MPF's private equity investments.

- Capital Dynamics is the manager of Capital Dynamics Merseyside Private Equity Fund.

- Capital Dynamics provides MPF with portfolio monitoring services including reporting and advice on the CDMPEF and the portfolio as a whole and in particular how the two combine.

4.3 The following is an extract from the Audit Commission 2009/10 Annual Governance report.

- *The Pension Funds private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review of the contract has identified that:*

- *The contract is with Crossroads Management UK Ltd - this is a predecessor*

- *It specifies an annual charge of £52,500 for the service provided - no such payment has been made for many years (probably 10 years+)*

- *The service to be provided relates to advising on strategy and investments, and monitoring progress.*

- *This monitoring was to be based on managers' reports and the Crossroads database there is no specific valuation service specified*

- *The Pension Fund has confirmed that the current arrangements are unchanged from those specified in the 1991 document.*

- *The service provided by Capital Dynamics Ltd is limited in terms of assurance for valuation of the portfolio and is inadequate, both because of the uncertain legal status of the contractual arrangements and the scope of the service provided.*

4.4 Following the audit the following recommendation was agreed.

- *The Pension Fund should review the contractual arrangements with Capital Dynamics Ltd if it continues to place reliance upon the valuation of the private equity portfolio.*

4.5 Discussions have taken place with Capital Dynamics to formalise the arrangements under which they provide certain services. Following negotiations it was agreed that the best way to implement this was through the letter in the exempt part of the agenda.

5.0 RELEVANT RISKS

5.1 There are risks of non compliance with best practice in the production of accounting information if arrangements with Capital Dynamics are not formalised.

6.0 OTHER OPTIONS CONSIDERED

6.1 Not relevant for this report.

7.0 CONSULTATION

7.1 Not relevant for this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no implications arising directly from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 There are no implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no implications arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no implications arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no implications arising directly from this report.

FNCE/139/11

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APPENDIX - Exempt Letter

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee Private Equity I	**23 March 2011**
Pensions Committee Audit Commission Annual Governance Report	**13 September 2010**
Pensions Committee Private Equity Investment	**23 March 2010**
Pensions Committee Private Equity	**18 June 2009**
Pensions Committee Private Equity Investment	**24 June 2008**

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**BANKING CONTRACT**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1 EXECUTIVE SUMMARY

1.1 This report notes the Cabinet approval to tender for banking services provided to the Council including Merseyside Pension Fund. The current contract with RBS Group can be extended to 31March 2013. However a European Union directive is forcing RBS to divest some of its services to other banks prior to that date. It may therefore be necessary to assign the existing contract to an alternative bank as an interim measure if this divestment takes place before the conclusion of the tender process.

2 RECOMMENDATIONS

2.1. That the Pensions Committee notes the agreement to invite tenders for the provision of banking services to the Council including Merseyside Pension Fund

2.2. That the Pensions Committee notes the agreement to the extension of the existing contract with RBS Group for the period of the tender process which shall be no later than 31March 2013.

2.3. That the Pensions Committee notes that the Director of Finance can agree to the assignment of the existing contract with RBS Group to another bank should RBS divest its services prior to completion of that tender.

3 REASONS FOR RECOMMENDATIONS

3.1 The Council needs to make alternative banking arrangements following a European Union directive on the current banker, RBS Group to divest some of its business. In accordance with good procurement practice it is recommended that this be done via open market competition.

3.2 It may be necessary to put in place temporary arrangements should RBS Group divest its business before the conclusion of a tender process. Under the terms of the existing agreement RBS Group may have to assign the contract to another bank with the agreement of the Council. It is proposed that the Director of Finance be authorised to agree to this assignment. The invitation of tenders in open market competition will ensure the Council achieves value for money.

4 BACKGROUND AND KEY ISSUES

4.1 Following a ruling of the European Union the current banker, RBS Group, needs to divest some of its business to other banks. This could affect who the Council contracts with for the provision of banking services.

4.2 The current contract with RBS Group expires on 30 June 2011. However there is provision for it to be extended to 31 March 2013. Discussions with RBS confirm the likely timing of their divestment to be early in 2012.

4.3 In accordance with good procurement practice it is proposed to invite tenders in open market competition for the provision of banking services to the Council including Merseyside Pension Fund. It is also proposed to extend the existing contract with RBS Group for the period it takes to conduct this tender, but no later than 31 March 2013. This can be done within the terms of the existing agreement. However should RBS wish to transfer its services to an alternative bank before the conclusion of this tender it may be necessary to assign the existing contract to an alternative bank as an interim measure pending the outcome of the tender. Discussions are ongoing with RBS to determine their timescales and secure continuity of banking services during the procurement process.

5. RELEVANT RISKS

5.1 The proposals outlined in this report will ensure the Council has continuity of banking services and achieves value for money through open market competition.

6. OTHER OPTIONS CONSIDERED

6.1 Officers examined whether contracts in place in other local authorities could be adopted.

7 CONSULTATION

7.1 There is ongoing consultation with RBS Group to ensure there is a seamless transition of banking services.

8. **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 None

9. **RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 None

10 **LEGAL IMPLICATIONS**

10.1 None

11. **EQUALITIES IMPLICATIONS**

11.1 None

12. **CARBON REDUCTION IMPLICATIONS**

12.1 None.

13. **PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1. There are none arising directly from this report.

FNCE/107/11

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APPENDICES

none

REFERENCE MATERIAL

none

SUBJECT HISTORY (last 3 years)

Council Meeting	Dates
Cabinet	**2 June 2011**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The report is to inform members of legislative and other developments impacting on the Local Government Pension Scheme.

2.0 RECOMMENDATION

2.1 That Members note the report.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

Independent Public Sector Pensions Commission (IPSPC) Report

4.1 It is reported that the Chief Secretary to the Treasury tabled a discussion paper at the last negotiating meeting between the Government and the Trade Unions which set out ideas for discussion and it was stressed that it does not necessarily represent the final position of the Government.

4.2 Trade Union pension officials are to meet Treasury officials to seek clarification on exactly what the paper is saying and will discuss the paper as part of the ongoing negotiations.

4.3 The paper repeats the Government belief that public service pensions should;

(a) Ensure dignity in retirement

(b) Remain gold standard high quality defined benefit, index linked, schemes

(c) Be fair and affordable to taxpayer

The 27 recommendations in the IPSPC final report should be the basis for consultation with no cherry picking on either side.

The cost of the schemes

4.4 The IPSPC did not set out what the schemes should cost or the level of benefits. The discussion paper does not mention any cost envelope but instead says the cost ceiling will be set once the scheme design has been determined. Most public service schemes have a cost envelope of between 19% and 21% of combined employer/employee contributions for future service benefits. If the scheme design is based on lower benefits the cost ceiling could be significantly below the current cost envelopes.

Scheme Design

4.5 The paper repeats the Government commitment to protect all benefits earned up to the date of change in the schemes and to maintain the final salary link for all past service for current members, so at retirement members will be able to draw their final salary pension benefits based on their pay when they retire.

4.6 The paper sets out the Government belief that apart from protecting all past service, the basis for discussion should be that no one should have any transitional protection. Therefore all service after the start of the new schemes for all members would be the same, with the higher retirement ages for future service based on the State Pension Age (SPA) (the exception should be the police, fire and armed services).

4.7 The Government believes that in future retirement ages in the schemes should be linked to changes to the SPA. Members could continue to able to retire before their normal retirement age but suffer an early payment reduction.

4.8 The paper supports the IPSPC recommendation that the new schemes should be Career Average Revalued Earnings (CARE) instead of Final Salary. The Government believes that CARE earnings should be revalued in line with National Average Earnings (NAE) up to retirement but wants more discussion about an appropriate measure of NAE. The paper confirms the Government is still committed to increasing pensions in payment by the CPI.

What is the proposed level of benefit?

4.9 The paper sets out that when looking at the level of benefits the Government wants scheme benefits to at least match the income replacement rates that were set out in the original Turner report. The recently up rated bands used in the paper are set out in the table below:

Gross Income	Benchmark Gross Income Replacement Rate %
Less than £11000	80
£11000 - £20000	70
£20000- £29000	67
£29000- £58000	60
£58000 and above	50

4.10 The paper does not suggest what the level of benefit should be but the modelling is based on a nurse starting on £21,176 pa and a Local Government worker starting on £16,456. It appears to assume that the member's career progression over a full career to SPA would be in the region of 30% increase in real terms over a working life in the public service scheme. The paper regards this as 'typical career' paths.

4.11 The income replacement rates are based on a % of NHSPS and LGPS pension before any cash lump sum is taken, added to the state pension (current full single person rate of £102.15 per week has been used).

4.12 The modelling shows that on this basis the examples would only need a scheme that provided a 1/100th build up i.e. 1% a year would match the benchmark. Two other options are shown 1/90th and 1/80th but not the current rate of 1/60th (or 1.67% a year).

4.13 If a 1/100th was used instead of 1/60th a nurse retiring on final pensionable earnings of £26,971pa which is based on a CARE scheme revaluing in line with average earnings, the pension after 40 years service would be 40/100th X £26,971 = £10788 pa as opposed to what the member would get in the 2008 section of the NHSPS of 40/60th X £26971 = £17980pa 40% less.

4.14 The trade unions have already pointed out shortcomings in the replacement rates and the fact that very few members have a career for 40 let alone 48 years.

Other Recommendations

4.15 The paper broadly endorses all the other recommendations of the IPSPC. On a cost ceiling it does repeat that the Government would bear the increased costs in 'relation to financial factors'. This suggests the Government would bear the cost of changing the discount rate although this seems to run counter to the Chancellor saying in the budget that the increased cost caused by changing the Discount Rate justifies the proposed increase of 3%+ for members by 2014/15.

4.16 On tiered contributions the Treasury paper is reported to quote new figures suggesting that if those for example earning under £15,000 a year were 'protected' the average for those earning above this figure would be 3.3% which does not reflect what individual pension schemes are finding.

4.17 On scheme Governance, Administration and Information the paper suggests the Government would like further consultation and that it may be ‘preferable’ to decouple theses issues from the central key principals. The Government wants an assessment of administration by the autumn before deciding on what overseeing body might be appropriate.

4.18 Regarding the relationship between central and scheme negotiations the paper says the Government believes the basis for discussion should be a common framework for the main public service schemes but recognise the specific circumstances of fire, police and armed forces and the funded nature of the LGPS.

In summary

4.19 There is a lot that needs clarification and the Treasury paper seems to suggest that the Government is still running with the IPSPC recommendations. The main issues of concern identified by the trade unions are:

(a) No transitional protection for existing members

(b) No confirmed cost envelope – and so possibly less generous cheaper schemes for the future. (That is less generous for members and cheaper for the Government).

4.20 The benchmark examples suggest strongly that the Government is looking at a scheme that provides a range of options that goes from 1% to 1.25% instead of 1.67% accrual a year. A drop in value of between 33% and 25% for an average increase in cost to the member above ‘low pay’ levels of 50%+ in terms of increased contributions.

Letter from the Local Government Group to the Government

4.21 The Local Government (Employers) Group has written on 20 May 2011 to the Government setting out its views on the recommendations made in the report of the Independent Public Service Pensions Commission. A copy of the letter is attached at Appendix 1.

4.22 Although the letter confirms support for the majority of the 27 recommendations made by Lord Hutton, significantly the LG Group does not support the proposal to honour in full the pensions promises that have been accrued by scheme members prior to the future introduction of a new scheme in 2015. This was a major concern raised by members of the scheme during the consultation undertaken by Merseyside Pension Fund and the views represented in the submission to the Commission.

4.23 The LG Group argues that this would “have significant cost implications for employers and council tax payers by retaining a final salary link for perhaps another 50 or so years for a 16 year old joining the scheme now”. This fails to point out that the protection will be only in respect of membership prior to the establishment of the new scheme in April 2015 (for less than a maximum of 4 years membership out of a potential total of 50 for a 16 year old starting now).

4.24 The LG Group does not give its full support to the retention of tiered employee contribution rates intended to make higher earners pay a higher percentage rate, as pensions should be looked at as part of an overall remuneration package. In its response Merseyside Pension Fund pointed out that a move away from a final salary basis to career average should remove the justification for tiered contributions.

4.25 The LG Group does not support the recommendation that future non-public service workers should be prevented from having access to public service pension schemes and points out that a basic assumption for LGPS funds' investment strategies is that the LGPS remains open to new entrants. A reduction in the active membership base would accelerate the maturity of pension funds and could have an impact on the UK investment sector and lead to a rise in local authorities' contribution rates to the LGPS.

Proposals to increase LGPS average employee contributions by 3.2%

4.26 In the Spending Review statement on 20 October 2010 the Government announced the intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). Merseyside Pension Fund wrote on 23 February 2011 to the Chancellor of the Exchequer on this matter expressing concerns at the potential negative impact of such a change in terms of increasing numbers of members opting out and the impact on the maturity position of the Fund in terms of its funding.

4.27 The LGE has also written again to the Chancellor on this issue on 14 April 2011. A final decision on this matter is expected in the autumn with the first increases due to take effect from 1 April 2012.

Judicial review of indexation by reference to CPI

4.28 On 6 May 2011 at the High Court, the trade unions (FBU, NASUWT, PCS, POA and Unite) jointly initiated proceedings for a judicial review of the Government decision to use CPI as the basis for the indexation of public sector pensions. The trade unions are arguing that:

- a change to use the CPI index is inappropriate;
- it unreasonably negates members' legitimate expectations for pensions increases based on RPI;
- it is legally wrong; and represents a change in members' benefits which was implemented without following an appropriate consultation exercise.

The outcome of the judicial review is awaited.

House of Commons Public Accounts Committee Report on changes to public sector pensions

4.29 The Public Accounts Committee has published a report on the changes introduced to public sector pension schemes in 2007-2008 which is the subject of a separate report to this Committee.

5.0 RELEVANT RISKS

5.1 The outcome of the judicial review on the change to indexation of benefits by CPI rather than RPI could result in a large increase in the value of pension fund liabilities increasing employer deficits if the appeal by the trade unions is successful.

5.2 The impact of large increases in employee contributions rates and the potential negative impact of such a change in terms of increasing numbers of members opting out could impact on the maturity position of the Fund in terms of its funding.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 Merseyside Pension Fund intends to consult further with all stakeholders on future proposals for change to the scheme when information is available.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The outcome of the Government considerations and consultation with stakeholders on the long term future of the Pension Scheme and short term increases in employee contribution rates may have significant impacts on the LGPS, employers and members.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/126/11

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APPENDICES

1 - Local Government (Employers) Group letter dated 20 May 2011 to DCLG.

REFERENCE MATERIAL

LGE letter dated 14 April 2011 to Chancellor on proposed contribution increases:
http://www.lge.gov.uk/lge/core/page.do?pageId=11571866
Unison report dated 20 May 2011 on Taking forward the recommendations of the Independent Public Service Pensions Commission.
LGE Bulletin 82

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
LGPS Update Reports presented to each meeting of the Pensions Committee	

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Rt Hon Eric Pickles, MP
Secretary of State for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

20 May 2011

Dear Minister,

Independent Public Service Pensions Commission: Final Report

I am writing to you to set out the Local Government Group's views on the recommendations made in the final report of the Independent Public Service Pensions Commission in as far as those recommendations relate to the Local Government Pension Scheme (LGPS).

We hope that the views set out in this letter will be of assistance to the Government in meeting its stated intention, as outlined by the Chancellor in his Budget Statement, to come forward by the autumn with proposals for a new, affordable, sustainable and fair scheme.

Recommendation in report	**Comment**
1. The Government should make clear its assessment of **the role of public service pension schemes**. Based on its framework of principles, the Commission believes that the primary purpose is to ensure adequate levels of retirement income for public service pensioners.	We agree with this recommendation.

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www.local.gov.uk

2. Pensions will continue to be an important element of **remuneration**. The Commission recommends that public service employers take greater account of public service pensions when constructing remuneration packages and designing workforce strategies. The Government should make clear in its remits for pay review bodies that they should consider how public service pensions affect total reward when making pay recommendations.	We agree with this recommendation.
3. The Government should ensure that public service schemes, along with a full state pension, deliver at least **adequate levels of income** (as defined by the Turner Commission benchmark replacement rates) for scheme members who work full careers in public service. Employers should seek to **maximise participation** in the schemes where this is appropriate. Adequate incomes and good participation rates are particularly important below median income levels.	We agree with this recommendation.
4. The Government must **honour in full the pension promises** that have been accrued by scheme members: their **accrued rights**. In doing so, the Commission recommends **maintaining the final salary link for past service** for current members.	We are concerned by the recommendation that benefits accrued up to the date the new scheme is introduced should continue to be based on final pay when the person leaves / retires; that the final pay link is retained on career breaks of up to 5 years; and that the final pay link carries over if a person has a Club transfer from one public sector scheme to another. This potentially has significant cost implications for employers participating in the LGPS and, by extension, for council tax payers and retains a final salary link for perhaps another 50 or so years for a 16 year old joining the scheme

	today and retiring from the scheme in his / her late 60's. There would also be intergenerational inequity to the extent that the cost is reflected in the design of the new scheme, as future scheme members would be subsidising the cost of protecting the final salary link for current active members moving to the new scheme. Our view is that accrued rights should instead be linked to final pay at the point the current scheme is closed i.e. the person would be awarded a deferred benefit in the current scheme which would increase in line with an appropriate index. The huge administrative burdens for employers and pension scheme administrators that would result from an exercise to award deferred benefits to such large numbers of scheme members would need to be allowed for.
5. As soon as practical, **members of the current defined benefit public service pension schemes should be moved to the new schemes for future service**, but the Government should continue to provide a form of **defined benefit pension** as the core design.	We agree that members of the current LGPS should be moved to a new defined benefit scheme for future service as soon as is practicable. The continuation of a form of defined benefits pension scheme is important as we recognise the value of the pension scheme as part of the overall pay and rewards package and its importance in our ability to recruit and retain an effective and motivated workforce. Retention of a form of defined benefit scheme also helps to reduce the number of those who might otherwise have become reliant on means tested benefits in old age.
6. All public service pension schemes should **regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally**. This information	As mentioned in our response to recommendation 19 below, each Fund already publishes significant amounts of information. It is difficult to see what, other than of academic interest, a national comparison of

should be of a quality that **allows simple comparisons to be made** across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds.	investment performance over time across Funds would achieve, given that each of the 89 LGPS Funds in England and Wales are uniquely different and democratically accountable at local level. Similarly, we know that administration costs can vary depending on the level of service a Fund provides and the charges costed to ‘administration’. The true usefulness of a centrally collated data is, therefore, questionable given that like for like are not necessarily being compared.
7. A new **career average revalued earnings (CARE) scheme** should be adopted for general use in the public service schemes.	We agree that the new scheme for the LGPS should be a CARE scheme. The balance between contribution rates, accrual rates and revaluation rates within an overall cost-envelope for the LGPS should be a matter for discussion between LGPS stakeholders with a view to balancing the aims of delivering an adequate retirement income, good participation rates and scheme sustainability.
8. **Pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members**. Post-retirement, pensions in payment should be indexed in line with prices to maintain their purchasing power and adequacy during retirement.	It will be necessary to specify which average earnings index is to be used for active scheme members. Linking the revaluation rate to an average earnings index will impact on the level of the accrual rate and the required contribution rates within the overall cost-envelope. We agree that, post retirement, benefits should be increased in line with prices (i.e. currently in line with CPI).
9. A single benefit design should apply across the whole income range. The differing characteristics of higher and lower earners should be addressed	We agree that a single benefit design should apply across the whole income range. With regard to tiered contribution rates there are

through **tiered contribution rates**. The Government should consider the trade off between affordability and the impact of opt outs on adequacy when setting member contribution levels.	arguments for and against. For example, although there are arguments that high earners should pay a higher contribution (as there is evidence that they have a higher life expectancy and so may receive a pension for a longer time than those with low earnings – see paragraph 3.84 of the Commission's report) there are equally counter arguments against higher contribution rates given that pensions are to be seen as part of the overall remuneration package (see recommendation 2) and higher earners earn less than their counterparts in the private sector (see paragraph 1.44 of the report). A decision on tiered contribution rates would need to be taken after giving appropriate weighting to each argument.
10. Members should have **greater choice** over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age and their pension would be adjusted accordingly on an actuarially fair basis. **Flexible retirement** should be encouraged and abatement of pensions in its current form for those who return to work after drawing their pensions should be eliminated. In addition, caps on pension accrual should be removed or significantly lifted.	We agree with this recommendation (given that the LGPS already includes flexible retirement provisions, does not have a cap on pension accrual, permits members to draw benefits without employer consent up to 5 years earlier than the normal retirement age of 65, and abatement is currently at the discretion of each Pension Fund administering authority).
11. The Government should **increase the member's Normal Pension Age in the new schemes so that it is in line with their State Pension Age.** The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference	We agree with this recommendation.

for keeping the two pension ages linked.	
12. The Government, on behalf of the taxpayer, should set out a **fixed cost ceiling**: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an **automatic default** change if agreement cannot be reached.	We agree that the Government should set a cost envelope within which the new LGPS should be designed. The cost envelope would have to be based on average, national LGPS costs, given that there are 89 separate pension Funds in England and Wales. We also agree that where costs exceed the cost ceiling there should be a consultation process between interested parties to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached. It will, of course, be necessary to decide which elements of the scheme should count towards the cost ceiling (e.g. should investment returns be taken into account, should past as well as future service costs be included, etc?). With regard to the automatic default, what it should be and how / when it should be triggered should be matters for the Minister responsible for the LGPS to decide (rather than there being a standard position that applies across all public service pension schemes).
13. The Commission **is not proposing a single public service pension scheme**, but over time **public service pensions should move towards a common framework** for scheme design as set out in this report. However, in some cases, for example, the uniformed services, there may need to be limited adaptations to this framework.	The distinctive nature of the funded, locally accountable, LGPS must not be ignored or overlooked. Subject to that proviso, a move towards a common framework seems sensible given the degree to which there is likely to be voluntary and compulsory transfer of staff across different areas of the public service in the future.
14. The key design features contained in this report should apply to all public	See 15 below.

service pension schemes. The **exception is in the case of the uniformed services** where the Normal Pension Age should be set to reflect the unique characteristics of the work involved. The Government should therefore consider setting **a new Normal Pension Age of 60 across the uniformed services**, where the Normal Pension Age is currently below this level in these schemes, and **keep this under regular review.**	
15. The **common design features laid out in this report should also apply to the LGPS**. However, it remains appropriate for the Government to **maintain the different financing arrangements for the LGPS** in future, so the LGPS remains funded and the other major schemes remain unfunded.	We agree that the high level key design features should apply to the LGPS but, within those, the LGPS should be allowed to develop the details in order to produce a scheme that best suits the range of employers and employees that participate in it. We agree that the LGPS should remain a funded scheme.
16. It is in principle **undesirable for future non-public service workers to have access to public service pension schemes**, given the increased long-term risk this places on the Government and taxpayers.	We disagree with this recommendation as far as access to membership of the LGPS is concerned. A basic assumption for LGPS Funds' investment strategies is that the LGPS remains open to new entrants. This allows employer contributions to be set at a stable long-term level and helps to justify investment in higher risk equities. A reduction in the active membership base would mean that Funds would start to become mature more quickly than would otherwise have been the case and Funds would need to move away from equities into bonds. This could have an impact on the UK investment sector - in which the LGPS Funds have significant holdings - and lead to a rise in local authorities' contribution rates to the LGPS. Furthermore, whilst the

	Localism Bill, the Cabinet Office's announcement of the 'Right to Provide' and the consultation paper on the 'Community Right to Challenge' all reflect the Coalition Government's policy to allow public sector employees to take over and run local authority services via employee led delivery models (such as co-operatives, mutuals, etc), employees may be less inclined to do so if continued membership of the LGPS is denied to them.
17. Every public service pension scheme (and individual LGPS Fund) should have a **properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration**. There should also be a **pension policy group** for each scheme at national level for considering major changes to scheme rules.	All LGPS Funds already have the equivalent of a Pension Board in the form of their pension committees and so, in essence, already meet this recommendation. Although the vast majority of Funds have member or Trade Union representatives we would not wish there to be a statutory requirement for Funds to have member nominees with voting rights given that, currently, the performance of the Fund has no direct impact on scheme members. This element of the recommendation is already met as the LGPS currently has a national, pension policy group (the Policy Review Group) which considers major changes and reforms to the scheme rules. Subject to a review of the make up of its membership, the Policy Review Group should be allowed to continue to perform this role.
18. **All public service pension schemes should issue regular benefit statements** to active scheme members, at least annually and without being requested and **promote the use of information technology** for providing information	We do not have concerns about this recommendation as LGPS Funds already issue annual benefit statements and make extensive use of information technology as a tool for communicating with employers and scheme members.

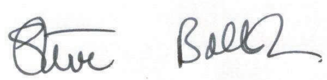
to members and employers.	
19. Governance and the availability and transparency of information would be improved by government establishing **a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes.** Government should consider which body or bodies, including, for example, The Pensions Regulator, is most suitable to undertake this role.	In principle, we have no objection to this recommendation. It should be recognised, however, that LGPS Funds are already legally required to publish an annual report which must include all the items shown in regulation 34 of the LGPS (Administration) Regulations 2008 including, amongst other things, valuation funding levels, a governance compliance statement, a funding strategy statement, a statement of investment principles, and a statement of policy concerning communications with members and employing authorities. Despite the view given in paragraph 6.46 of the report, we believe that, given the role DCLG already play in relation to the LGPS, DCLG would seem to be the most suitable body to undertake an oversight role. This would, of course, have resource implications for DCLG that would need to be addressed.
20. When assessing the long term sustainability of the public finances, the **Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes** (including the funded LGPS).	In principle we have no objection to this recommendation although we wonder to what extent this is relevant to the LGPS given that the LGPS is not covered by AME, the 89 LGPS Funds in England and Wales are locally funded and actuarially valued, and significant numbers of employers participating in the LGPS are not public service bodies per se.
21. **Centrally collated comprehensive data, covering all LGPS Funds, should be published including Fund comparisons**, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans.	DCLG already publish centrally collated data obtained via the Pension Funds' SF3 returns. Due regard must be given to the resourcing implications of this recommendation (if additional data has to be prepared and collated) and to the usefulness of the additional

	data given that each LGPS Fund is unique and locally accountable. Much information not contained in the current SF3 returns can already be obtained by bodies if they wish to research the data published by each Fund in their annual report.
22. Government should set **what good standards of administration should consist of in the public service pension schemes based on independent expert advice.** The Pensions Regulator might have a role, building on its objective to promote good administration. **A benchmarking exercise should then be conducted across all the schemes** to assist in the raising of standards where appropriate.	In principle we do not disagree with this recommendation. However, given the wide range of administration standards and service level agreements that are already embedded in scheme processes, and the different ways in which the various public sector schemes are administered in practice, full consideration will need to be given to the costs and practicalities of moving all public sector schemes to a common set of standards against which they can be benchmarked.
23. Central and local government should **closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate,** across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to **realise greater efficiencies in the administration of pensions** by sharing contracts and combining support services, including considering outsourcing.	We do not have any specific concerns about this recommendation and are supportive of the co-operative approach.
24. The Government should introduce **primary legislation to adopt a new common UK legal framework** for public service schemes.	We are not convinced of the necessity for new primary legislation as the schemes have managed to operate without difficulty within the existing primary legislation. In our view, the time taken to prepare new primary legislation could seriously

	hinder the chances of delivering new schemes by 2015. The introduction of new schemes by 2015 and ensuring the long-term affordability of public sector pensions should take priority over any new primary legislation. Furthermore, we do not agree with the suggestion in paragraph 6.91 of the report that the consent of HM Treasury for future changes to benefit design or to valuing benefits should be extended to the LGPS as the LGPS Funds are locally financed and locally accountable.
25. The **consultation process itself should be centrally co-ordinated**: to set the cost ceilings and timetables for consultation and overall implementation. However, the **consultation on details should be conducted scheme by scheme involving employees and their representatives**.	We agree with this recommendation i.e. that the central process should set the cost ceilings and timetables for consultation and overall implementation only.
26. The Commission's view is that even allowing for the necessary processes it should be possible to **introduce the new schemes before the end of this Parliament** and we would encourage the Government to aim for implementation within this timeframe.	We agree that the Government should aim to implement a new LGPS by 2015. To achieve this tight timetable it is important that progress begins as early as possible, even more so given that the Chancellor, in his budget statement, said that the Government intends to set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer. What we need is a clear route map and timeline to get from where we are now to the introduction of a new scheme by 2015. This must include adequate time for regulations to be made and laid, actuarial guidance to be issued, communication materials to be produced and issued to employers

	and scheme members, and new administration systems to be created, tested and implemented. We recognise, of course, that achieving this tight timetable may be difficult given there may well be opposition from the unions.
27. **Best practice governance arrangements** should be followed for **both business as usual and the transformation process**, for each scheme. And there will also **need to be the right resource**, on top of business as usual, to drive the reforms; particularly given the challenging timescale and scope of the reforms.	Many of the matters we have mentioned in our response to recommendation 26 above have resource implications for employers, Pension Fund administering authorities, the LG Group, DCLG (pensions and legal) and actuarial advisers. The Government should ensure that DCLG, and GAD (if they are to be used for the provision of actuarial advice and guidance), are provided with adequate resources to deliver the required outcomes within the timeframe envisaged.

Yours sincerely,



Mayor Sir Steve Bullock
Chair, Workforce Programme Board

Cc:
Rt Hon George Osborne, MP – Chancellor of the Exchequer
Rt Hon Danny Alexander, MP – Chief Secretary to the Treasury

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT	**REPRESENTATION ON OUTSIDE BODIES**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION	**NO**

1.0. EXECUTIVE SUMMARY

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

2.0. RECOMMENDATIONS

2.1. That Councillor Geoffrey Watt continues to be an Executive Member of LAPFF.

2.2. That Councillor Ann McLachlan continues as a LGA Labour Group appointment on the Local Government Pensions Committee.

3.0. REASON FOR RECOMMENDATIONS

3.1. To agree representation on outside bodies.

4.0. BACKGROUND AND KEY ISSUES

4.1. Members of this Committee on occasion represent MPF on external collaborative bodies which promote best practice in particular areas of pensions administration and investment.

4.2. Previously attendance on these bodies has been treated as an approved duty and any expenditure incurred met from the MPF budget.

4.3. Councillor Geoffrey Watt serves as an Executive Member of the Local Authority Pension Fund Forum.

4.4. As a result of being an Executive Member of LAPFF, Councillor Geoffrey Watt also represents MPF on the Institutional Investor Group on Climate Change (IIGCC).

4.5. Members are requested to consider whether Councillor Geoffrey Watt should continue as an Executive Member of LAPFF. If a decision is taken to resign the position then it would not be within the power of the Pensions Committee to nominate any other Member. In this situation MPF would cease to be represented on the Executive of LAPFF.

4.6. On 22 September 2009 the Pensions Committee agreed to the appointment of Councillor Ann McLachlan to the Local Government Pensions Committee (LGPC) of the Local Government Association (LGA).

4.7. This appointment was at the request of the Labour Group on the LGA. If Councillor Ann McLachlan was to resign from this appointment then again it would not be within the power of the Pensions Committee to appoint any other Member.

5.0 **RELEVANT RISKS**

5.1 If the Committee does not renew these appointments then MPF would not be represented on these bodies.

6.0 OTHER OPTIONS CONSIDERED

6.1. No other options have been considered.

7.0 CONSULTATION

7.1. No consultation has been required in the preparation of this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1. There are none arising directly from this report.

9.0. RESOURCE IMPLICATIONS

9.1. There are none arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1. There are none arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1. There are none arising directly from this report.

FNCE/104/11

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APPENDICES:

None

REFERENCE MATERIAL

None

SUBJECT HISTORY

Council Meeting	Date
Pensions Committee	28 June 2010
Pensions Committee	22 September 2009
Pensions Committee	18 June 2009

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2010/11**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 **EXECUTIVE SUMMARY**

1.1. This report presents a review of Treasury Management activities within Merseyside Pension Fund (MPF) for the 2010/11 financial year and reports any circumstances of non-compliance with the treasury management strategy and treasury management practices. It has been prepared in accordance with the revised CIPFA Treasury Management Code.

2.0 **RECOMMENDATION**

2.1. That the Treasury Management Annual Report for 2010/11be agreed.

3.0 **REASON FOR RECOMMENDATION**

3.1. The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate that they have properly fulfilled their responsibilities and enable those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid year is met via regular reports to the Investment Monitoring Working Party (IMWP).

4.0 **BACKGROUND AND KEY ISSUES**

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

4.2 On 13 January 2010, Pensions Committee approved the Treasury Management Policy and Strategy 2010/11.

4.3. This report relates to money managed in-house during that period. It excludes cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

TREASURY MANAGEMENT

4.4 As at 31 March 2011, MPF had a cash balance of £53.8 million (excluding Iceland deposits) as against £50.2 million at 31 March 2010. All of these funds were held on call accounts with Royal Bank of Scotland, Yorkshire Bank, Bank of Scotland and Prime Rate Money Market Fund.

4.5 Managing counterparty risk continued to be the overarching investment priority. This was maintained by following the counterparty policy as set out in the Treasury Management Strategy for 2010/11. Investments during the year included:

- Call accounts and deposits with UK Banks and Building Societies
- Investments in AAA rated money market funds with a constant Net Asset Value

4.6 The rate at which MPF can invest money continues to be low, reflecting the record low Bank of England base rate which remained at 0.5% throughout 2010/11.

4.7 Over the twelve month period, WM calculated the cash performance to be 3.2% against a benchmark performance (7 day LIBID) of 0.4%. This performance is enhanced by the inclusion of securities lending income.

4.8 Transactions were undertaken to reflect the day-to-day cash flows of the Fund, matching inflows from receipts to predicted outflows.

4.9 The detailed cash flow plans were managed so as to be fully compliant with the deposit limits agreed for individual financial institutions as reflected in the Treasury Management Policy for 2010/2011. During the year however, there were three individual days where MPF was non-compliant with these limits due to the receipt of significant funds 24 hours ahead of when they were expected, after the days' dealings had been completed. In each case, the total of deposits held in MPF bank accounts with the Royal Bank of Scotland (RBS) exceeded the agreed limit. In each case, the anomaly was rectified the following working day, with no financial disadvantage to the Fund.

4.10 Scenarios when deposit limits can sometimes be exceeded occur when there are major transitions within or between asset classes and when planned property purchases are not completed on the scheduled dates. Cash sums over and above those needed for operational purposes have to be readily available to fund such purchases on the expected completion day. When delays happen and the temporary surplus of funds exceeds, or is expected to exceed these deposit limits, MPF seeks the agreement, in the first instance, of the Fund Operating Group (FOG), and duly reports such exceptions to the next meeting of the IMWP. In accordance with the Treasury Management Strategy, in December 2010 the FOG agreed to increase temporarily the limit at the RBS pending completion. Permissions were sought thereafter on a monthly basis until the delayed purchase was duly completed. A report was presented to the IMWP in February 2011. There was no negative impact experienced by the Fund during this time.

ICELAND DEPOSIT UPDATE

4.11 As previously reported MPF had £7.5m deposited across two Icelandic Banks, Glitnir £5m and Heritable £2.5m:

Glitnir

4.12 Local authorities with investments in Glitnir have gained priority status as creditors. A ruling by the Iceland district court means that deposits placed by UK wholesale depositors will now have priority in the winding up of Glitnir bank. However an appeal has been lodged against this decision by the Glitnir winding up board and the appeal hearing is expected in September 2011. If priority status is retained, as is expected, recovery is likely to be 100%. If however non-priority status is awarded, recovery is expected to be 29%.

Heritable

4.13 The projected return to creditors remains at 85 pence in the pound. To date (May 2011) MPF has received seven dividend payments totalling £1,426,398.06 (56.35 pence in the pound). An eighth payment is expected to be declared in July 2011.

5.0 RELEVANT RISKS

5.1 All relevant risks have been discussed within section 4 of this report. The fact that RBS, which is the main recipient of surplus cash, is some 80% Government owned is viewed as low risk.

6.0 OTHER OPTIONS CONSIDERED

6.1 There are no other options considered in this report.

7.0 CONSULTATION

7.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are none arising out of this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The financial implications are stated above. In accordance with accounting guidance an appropriate note regarding impairment is being included in the Annual Accounts for the year ended 31 March 2011.

10.0 LEGAL IMPLICATIONS

10.1 The legal implications have been discussed within section 4 of this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising out of this report.

11.2 Equality Impact Assessment is not required.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising out of this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising out of this report.

FNCE/128/11

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APPENDICES

None

REFERENCE MATERIAL

Code of Practice for Treasury Management in Public Services – CIPFA 2009

SUBJECT HISTORY

Council Meeting	Date
Pensions Committee – Treasury Management Policy and Strategy 2010/11	13 January 2010
Pensions Committee – Treasury Management Annual Report 2009/10	28 June 2010
Pensions Committee – Treasury Management Policy and Strategy 2011/12	11 January 2011

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**INVESTMENT PERFORMANCE 2010-11**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

This report outlines the investment performance of Merseyside Pension Fund for the year ended 31 March 2011 as reported by the WM Company.

2.0 RECOMMENDATION

2.1 That Committee note the investment performance for the 12 month period to 31 March 2010.

3.0 REASON/S FOR RECOMMENDATION

3.1 The performance of the Fund relative to the benchmark is a key indicator of the successful implementation of the investment strategy

4.0 BACKGROUND AND KEY ISSUES

4.1 The Fund returned 8.9 per cent in the financial year to the end of March 2011 compared to the bespoke benchmark return of 7.5 per cent, an outperformance of 1.4 per cent against benchmark.

4.2 Over the same period, the average return of all Local Authority Pension Funds based on the WM Local Authority universe of 90 funds was 8.2 per cent.

4.3 Investment returns were positive for the financial year to the end of March 2011 despite economic and geopolitical headwinds. Governments, particularly in the developed world, maintained monetary and fiscal stimulus measures to bolster their economies whilst economic activity rebounded in developing economies.

4.4 Looking back over the 12 months, equity markets started poorly in the second quarter of 2010 as the pace of economic recovery in the United States and Europe moderated. The peripheral European debt crisis dominated the headlines leading to major falls in share prices as the European Central Bank and International Monetary Fund stepped in with aid packages for Greece. The BP oil spill in the Gulf of Mexico also weakened sentiment in the UK.

4.5 However, equities rebounded in the third quarter, driven by better than expected company earnings and in spite of the UK emergency budget and associated austerity measures. Markets remained volatile in the fourth quarter. Sentiment was boosted by the Federal Reserve announcing another round of quantitative easing but worries continued over European the sovereign debt crisis with the bailout of the Irish economy in November. Notwithstanding this, global markets benefitted from a combination of better than expected macroeconomic data and improved prospects for the US economy. Most markets finished the calendar year at or around their highs for the year.

4.6 The first quarter of 2011 saw evidence of heightened investor concerns with markets hit by the fallout from the earthquake in Japan and the further strength in oil prices as a consequence of polictical instability in North Africa and the Middle East. Growth in Emerging markets was clouded with uncertainty as inflation was in danger of becoming an entrenched problem in some countries. Closer to home, the European debt crisis remained to the fore with Portugal approaching the European Union to request a bailout. Nonetheless, equity markets made further headway to give a positive outcome for the 12 month period.

4.7 The performance of the Fund against its relevant benchmark and against price and earnings indices over 1, 3, 5 and 10 year periods is tabulated below.

	1 Year	3 Year	5 Year	10 year
MPF	8.9	6.1	4.6	5.7
Benchmark *	7.5	5.5	4.6	5.3
RPI	5.3	3.1	3.6	3.1
Average Earnings	1.7	2.4	3.7	4.0

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

5.0 RELEVANT RISKS

5.1 Management of investment risk is implicit in the strategic benchmark which is formulated in conjunction with the actuary and advisers.

6.0 OTHER OPTIONS CONSIDERED

6.1 None

7.0 CONSULTATION

7.1 The Funding Strategy Statement and Statement of Investment Principles, which influence the investment strategy, are subject to consultation with the principal stakeholders.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The Fund returned 8.9 per cent in 2010/11. The Fund appreciated in value by circa £311m over the financial year to 31 March 2011.

10.0 LEGAL IMPLICATIONS

10.1 None

11.0 EQUALITIES IMPLICATIONS

11.1 None

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 No direct implications. MPF is a member of the Institutional Investor Group on Climate Change and the support for Responsible Investment encourages an awareness of environmental issues by the investment managers.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None.

FNCE/130/11

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APPENDICES

None

REFERENCE MATERIAL

WM Company – Quarterly Performance Review to end March 2011

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	28 June 2010
Pensions Committee	18 June 2009

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**CARBON REDUCTION**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the arrangements being made by Wirral Council, as Administering Authority for Merseyside Pension Fund, for a Carbon Budget for the Authority, and indicates the implications for the MPF investment property portfolio.

1.2 The report describes the impact on the both the MPF investment properties and on their tenants of the carbon allowances charges, together with current and future options available to MPF to reduce carbon emissions.

2.0 RECOMMENDATION

2.1 That Members endorse the proposed approach to carbon reduction at the MPF investment properties.

3.0 REASONS FOR RECOMMENDATION

3.1 The Statement of Investment Principles includes a statement on responsible ownership, including how environmental, social and governance factors can affect investment performance. MPF is committed to ensuring improvement in the environmental performance of its properties and wishes to ensure that any decisions taken on investment within the buildings are with the objective of ensuring continual environmental improvement.

3.2 In the context of the MPF investment properties, regard will taken to the likely payback period of any significant investment proposals on properties which, potentially, MPF could dispose of at relatively short notice.

4.0 BACKGROUND AND KEY ISSUES

4.1 MPF owns 28 investment properties, of which one is located in Wirral. MPF is one of many tenants in another MPF property, Castle Chambers, Liverpool.

4.2 There are differing arrangements with tenants at different locations. In certain buildings, MPF has no responsibilities under current legislation for carbon reduction:

- single let properties where the tenant is fully responsible for making arrangements and paying for their energy consumption
- those areas of multi let properties where the tenant undertakes similar responsibilities

4.3 The current legislation would however impact on MPF as follows:

- the areas of Castle Chambers occupied by MPF
- common areas of Castle Chambers where energy costs are recovered via service charge from tenants
- areas of Castle Chambers where tenants do not make their own arrangements for their energy consumption, but are charged by MPF via the service charge
- all other properties where tenants are charged for energy consumption via the service charge

4.4 Within the context of arrangements made by the Administering Authority, the Cabinet has agreed that departments are allocated a non-financial carbon budget for the current financial year. The budget for the Finance Department includes the areas of Castle Chambers occupied by MPF. Each service's carbon budget is expected to decrease annually by its target figures, which equates to a 5% reduction to enable the Council to achieve its long term target of a 60% reduction by 2025. The Sustainability Unit will work with MPF with regard to the implementation of the Carbon Budget as part of normal business activities.

4.5 The property managing agents, CB Richard Ellis (CBRE), are providing the Sustainability Unit with details of energy consumption and emissions at the relevant locations. In addition, each Property and Asset Management Quarterly Report shows an Environmental Summary which sets out initiatives being taken or considered at all of the properties, including those where tenants have direct responsibility for their energy and emissions.

4.6 CBRE produced in December 2010 a sample report on Castle Chambers setting out a number of options to reduce the carbon output. There are a number of low cost easy wins, which will pay back in a relatively short period of time, and can be easily implemented. These include Passive Infra-reds (PIRs) and "hippos" in cisterns. Some options however have high capital costs with long payback periods, e.g. PV solar panels and new heating boilers. Long term trends in energy prices might reduce payback periods. Tenants within Castle Chambers, including MPF, have nominated "energy champions" to help achieve common objectives.

4.7 CBRE produced, in April 2011, an "Environmental Measures" document which sets out some examples of measures undertaken across the portfolio, and indicates progress towards the principles of ISO 14001 Accreditation which requires continual improvement in reducing carbon usage, record keeping, drawings and knowledge and control measures. A more pro-active approach can be taken within the seven multi-let properties which have site staff.

4.8 A carbon emission charge is scheduled to be levied in the summer of 2012 in respect of emissions in the financial year 2011/2012 at a rate of £12 per tonne. This will, where appropriate, be passed onto tenants via the service charge. Where these costs cannot be recovered, they will have to be absorbed by MPF, and shown as a reduction in net rental income to the Fund. Clearly therefore the interests of MPF and the tenants are aligned in terms of reductions in energy consumption and emissions.

4.9 As MPF is continually reviewing the property portfolio, decisions on future investments will have regard to carbon emission efficiency, together with other considerations.

5.0 RELEVANT RISKS

5.1 There is a risk that the Castle Chambers element which will feature in the Finance Department carbon budget is not achieved. However the involvement of CBRE and nominated “energy champions” mitigate this risk.

5.2 The possibility of above average tax charges may combine with other factors to make service charges in MPF properties uncompetitive, with consequential risks of both losing, and failing to attract tenants. Close working relationships with CBRE should mitigate this risk.

6.0 OTHER OPTIONS CONSIDERED

6.1 The only other option is to do nothing, which is contrary to the Statement of Investment Principles.

7.0 CONSULTATION

7.1 Consultation with tenants as stakeholders is ongoing.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The net amount of property investment income will reduce for any carbon allowance charges not recoverable from tenants and in the medium term, pending the payback, from any associated costs of investment in carbon-reducing measures.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 These are set out throughout the report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/127/11

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APPENDICES

None

REFERENCE MATERIAL

Reports from CB Richard Ellis -

December 2010: “Energy Reduction Scheme – Castle Chambers”
March 2011: Property and Asset Management Quarterly Report
April 2011 “Environmental Measures”

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet	14 April 2011
Cabinet	21 February 2011

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**FAIR DEAL CONSULTATION**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The report informs Members of a consultation launched by HM Treasury on the "Fair Deal" policy that applies when there are compulsory transfers of public sector staff.

1.2 As the consultation period closed on 15 June 2011 a response has been submitted highlighting the potential implications of a decision to end the current policy on the long term funding of the LGPS and on levels of employer contribution rates.

2.0 RECOMMENDATION

2.1 That Members approve the response dated 20 May 2011 submitted to the Treasury consultation (Appendix 1 attached).

3.0 REASONS FOR RECOMMENDATION

3.1 There is a requirement for members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

3.2 The current Fair Deal policy builds on the requirements of TUPE and provides a higher level of pension provision for transferred employees.

3.3 Best Value Authorities including those in local government are covered by separate requirements, which are set out in the Best Value Authorities Staff Transfers (Pensions) Direction 2007. Broadly comparable benefits must be provided where staff cannot remain in their existing scheme by virtue of an admission agreement. The Pensions Committee considered the introduction of the current arrangements on 25 September 2007 (Minute 37 refers). A change to this policy for local government would require specific legislation.

3.4 The Department for Communities and Local Government (DCLG) will be carrying out consultation to determine how any changes to the current policy for protection of pensions of transferred staff will affect the current arrangements in local government and how any changes will be implemented in respect of the LGPS.

4.0 BACKGROUND AND KEY ISSUES

4.1 The Pensions Committee last considered this matter on 11 January 2011 (Minute 67 refers).

4.2 On 21 March 2011 the Secretary Of State for Local Government announced that he was actively considering ending the Local Authority Two Tier Code introduced by the then Office of the Deputy Prime Minister. This provides that where councils outsource functions, then it requires private firms to employ new workers on the same terms as the public service workers who transferred across.

4.3 One of the 27 recommendations of the Hutton Report on Public Service Pension Reform sets out that in his view it is in principal undesirable for future non-public service workers to have access to public service pension schemes. This relates to this separate consultation on the Fair Deal approach to pensions when outsourcing public sector work.

4.4 The consultation paper outlines a range of options for future policy on pension requirements for staff transferring out of the public sector due to outsourcing. This spans from keeping the Fair Deal Policy in its current form to removing it all together or a middle option where it is retained in some amended form. As the decision on outsourcing is a responsibility of the individual employers rather than MPF this is principally a matter for their consideration. The implications on the future membership profiles of local authority funds and the funding of liabilities is however a matter of concern to administering authorities and the response submitted sets these out.

4.5 The response to the consultation supports the views expressed in the letter dated 12 April 2011 by the Local Government Group that there should be a further policy objective in addition to those listed in the consultation document which needs to be taken into account; that additional objective is **"to ensure the ongoing sustainability of the funded Local Government Pension Scheme (LGPS)".**

5.0 RELEVANT RISKS

5.1 The ending of the Fair Deal provision could lead to a reduction in the LGPS broad active membership base at a time when membership is already reducing, due to reductions in the general local government workforce during the Spending Review period.

5.2 The LGPS is also under threat from a potentially significant increase in the number of employees deciding to opt out of the scheme if a large increase in the level of employee contribution rates is introduced. The latest membership figures for MPF indicate a reduction in the total active membership from over 50,000 to 48,000.

6.0 OTHER OPTIONS CONSIDERED

6.1 The full range of options between retention of the current policy to complete withdrawal and decisions in between are being considered by the Government.

7.0 CONSULTATION

7.1 The consultation period in question ended on 15 June 2011 and the outcome is expected to be reported later in the year.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 A number of voluntary organisations are admitted bodies within the Fund and as scheme employers have been and will be included in any future consultation on proposed changes to the LGPS.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 A basic assumption for LGPS Funds' investment strategies is that the LGPS remains open to new entrants. This allows employer contributions to be set at a stable long-term level and helps to justify investment in higher risk equities.

9.2 A reduction in the active membership base would mean that funds would start to become mature more quickly than would otherwise have been the case and funds would need to move away from equities into bonds.

9.3 This could have an impact on the UK investment sector - in which the LGPS Funds have significant holdings - and lead to a rise in local authorities' contribution rates to the LGPS.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/132/11

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APPENDICES

1 - Response submitted to HM Treasury consultation dated 20 May 2011.

REFERENCE MATERIAL

1 HMRC Consultation on the Fair Deal Policy dated March 2011.
2 DCLG letter dated 27 June 2007.
3 2007 Direction Order

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**11 January 2011**

Our Ref: PS/PM

Your Ref: Fair Deal Consultation

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 20 May 2011

Public Service Pensions Fair Deal Consultation
Workforce, Pay and Pensions Team
Public Services and Growth Directorate
HM Treasury
1 Horse Guards Road,
London,
SW1A 2HQ

Dear Sir/Madam,

Consultation on the Fair Deal Policy

I refer to the above mentioned consultation document dated March 2011 and am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority of the Merseyside Pension Fund.

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 100 other employers on Merseyside and elsewhere throughout the UK.

The Fund has over 50,000 active contributing members, 41,359 pensioners and just over 34,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £4.5 billion. The LGPS is a defined benefit, final salary public sector occupational scheme.

The constituent employers within the Fund will hold a variety of views on the questions posed in the consultation document and will be able to respond on an individual basis.

The Fund response supports that previously submitted by the Local Government Group (which represents local authorities on a national basis), in its response dated 12 April 2011, which concentrates on matters that we believe the Government needs to consider carefully before reaching any conclusions and making decisions on this matter.

The Fund would support the LG Group contention that a further policy objective in addition to the four listed in paragraph 3.2 of the consultation document which needs to be taken into account; that additional objective is **“to ensure the ongoing sustainability of the funded Local Government Pension Scheme (LGPS)”.**

In its response to the Independent Public Service Pensions Commission’s (IPSPC) call for further evidence, the LG Group said: “We believe that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option in the LGPS for contractors to enter into an admission agreement should be retained.”

The final report from the IPSPC however included the following recommendation:
"It is in principle undesirable for future non-public service workers to have access to public service pension schemes, given the increased long-term risk this places on the Government and taxpayers."

If the Government follows that recommendation and Fair Deal were to continue in its present form, contractors would only be able to offer outsourced staff a broadly comparable scheme rather than having the choice of being able to offer continued access to the LGPS via an admission agreement as an alternative to a broadly comparable scheme.

This could lead to a reduction in the LGPS's broad active membership base at a time when its membership is already reducing, due to reductions in the general local government workforce during the Spending Review Period and is under threat from a potentially significant increase in the number of employees deciding to opt out of the scheme if a large increase in the level of employee contribution rates is introduced. (The latest membership figures for the Fund indicate a reduction in the total active membership from over 50,000 to 48,179 today).

A basic assumption for LGPS Funds' investment strategies is that the LGPS remains open to new entrants. This allows employer contributions to be set at a stable long-term level and helps to justify investment in higher risk equities. A reduction in the active membership base would mean that Funds would start to become mature more quickly than would otherwise have been the case and Funds would need to move away from equities into bonds. This could have an impact on the UK investment sector - in which the LGPS Funds have significant holdings - and lead to a rise in local authorities' contribution rates to the LGPS.

Equally, regardless of whether or not the Government accepts the IPSPC recommendation, if Fair Deal is discontinued or watered down there would be a number of implications. For example:

It is likely that Funds would then become mature more rapidly. This is because there would inevitably be greater levels of outsourcing. In house bids would be less likely to succeed given that they would have to offer membership of the LGPS whereas contractors' bids could be constructed on the basis that they would not have to make such good pension provision. The consequential reduction in the membership base of the LGPS would have the same effects as set out in the paragraph above.

Whilst the Localism Bill, the Cabinet Office's announcement of the 'Right to Provide' and the consultation paper on the 'Community Right to Challenge' all reflect the Coalition Government's policy to allow public sector employees to take over and run local authority services via employee led delivery models (e.g. co-operatives, mutuals, etc), employees may be less inclined to do so if continued membership of the LGPS is denied to them.

The Fund would therefore support the proposal that when considering question 3 in the consultation document, the Government should recognise the concerns expressed above and accept that a further policy objective should be; **to ensure that LGPS Funds remain sustainable and viable, via a broad active membership base.**

The Merseyside Fund would support the proposal that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option for those bodies to which staff are compulsorily transferred to be able to enter into an admission agreement in the LGPS should be retained.

A summary of the active membership of admission bodies currently in force for the Merseyside Fund is given in the attached annex. This gives details in respect of staff who in the main were transferred from local authorities to private contractors or other new organisations as a consequence of Government initiatives. The 4,518 active employees of some 45 organisations including private contractors, housing bodies and transport undertakings represent a significant part of the membership of the Scheme.

A further 30 other voluntary organisations which provide a public service to the community which are also admitted the Fund are not included in these figures.

This Fund shares the LG Group view that Admission agreements have, worked well and that they do not suffer from the problem identified in paragraph 3.5 of the consultation document. Whilst this may be a problem in other public sector schemes, where employers pay standard contribution rates, employers in the LGPS each have their own individual employer contribution rates. Thus, if a body participating in the LGPS awards greater than expected pay rises, this can be reflected in that employer's contribution rate to the LGPS.

The Fund would reiterate the two other general points made by the LG Group in its response that appear to have been overlooked in the consultation document:

Although those elements of an occupational pension scheme relating to old age, invalidity and survivors' benefits are excluded from transferring under TUPE, the exclusion does not extend to early retirement benefits (such as payment of benefits on redundancy). This is not mentioned in the consultation document and yet is an important aspect that should not be overlooked as it will impact on decisions as to how / if Fair Deal should operate in the future.

Also the consultation document makes no mention of the bulk intra public service staff transfers that increasingly occur as a result of machinery of government changes which create their own pension protection issues. Decisions will, therefore, also need to be taken on whether, and if so how, Fair Deal should operate in respect of such transfers in the future.

If you require any further information or assistance please do not hesitate to contact me.

Yours faithfully

Deputy Head of Pension Fund

Annexe

Merseyside Pension Fund Admitted Employees - Contractors

Number	**Name**	**Actives**	
727	Arena Conf Centre	85	
720	Arvato	375	
729	Balfour Beatty	16	
184	Birkenhead Market Services	15	
721	Capita Symonds(Sefton)	100	
728	Colas	47	
718	Compass Scolarest Lpool	4	
717	Compass Scolarest Wirral	24	
170	Gtr Merseyside Connexions	329	
190	Enterprise Lpool Cleansing	156	
168	Enterprise Lpool Highways	95	
709	Enterprise Lpool Grounds	60	
194	Geraud Markets	5	
708	Glendale Parks	94	
730	Graysons Restaurants	5	
714	Higher Educ Services	2	
712	Hochtief Lpool Schools	17	
713	Hochtief Wirral Schools	22	
710	Kingswood Colomendy	11	
719	Liberata UK	57	
722	Liverpool Vision	45	
173	Mott Macdonald (MIS)	6	
700	Mouchel 2020 Knowsley	18	
185	Mouchel 2020 Liverpool	97	
703	Novas Group	4	
707	Sefton New Directions	412	
186	Taylor Shaw Catering	4	
725	Veolia ES	40	
	Sub total	2145	2145

Admitted Employees	**Housing Bodies**		
199	Beechwood Housing	2	
181	Berrybridge Housing	17	
180	Cobalt Housing	25	
89	CDS Housing	120	
188	Greater Hornby Homes	4	
171	Helena Partnerships	512	
172	Knowsley Housing Trust	411	
187	Liverpool Housing Trust	8	
179	Lee Valley Housing	8	
715	Lpool Mutual Homes	202	
705	One Vision Housing	208	
154	Port Sunlight Village	15	
153	South Liverpool Housing	8	
113	Villages Housing Assoc	3	
197	Wirral Partnership Homes	423	
	Sub total	1966	1966

Admitted Employees	**Bus Companies**		
76	Arriva	362	
163	Glenvale/Stagecoach	45	
	Sub total	407	407
	Grand total		**4518**

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**PASSIVE MANAGEMENT**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members that the tender exercise for passive management has been deferred following an administrative error. As a result of this, the contracts for the existing providers of passive management services need to be extended and a new procurement process initiated.

2.0 RECOMMENDATIONS

2.1 That Members note the deferral of the procurement exercise for passive management.

2.2 That Members agree to the extension of the contracts for Legal and General (L&G) and UBS for their current respective passive mandates to 31 March 2012.

3.0 REASON FOR RECOMMENDATIONS

3.1 The course of action taken so far by the Pension Fund and that recommended to Members has been on the basis of advice given by the Procurement Unit and Director of Law and is viewed as necessary to ensure that the Council complies with legislation relating to public procurement within the EU.

4.0 BACKGROUND AND KEY ISSUES

4.1 On 11 January 2011 Pensions Committee agreed a recommendation to commence a procurement exercise for the provision of passive management services to the Fund.

4.2 This process was due to be completed before this meeting of the Pensions Committee and a recommendation would have been brought to this meeting.

4.3 In advance of the scheduled interviews of the short-listed managers there was an administrative error which resulted in confidential information being inadvertently disclosed to one of the candidates.

4.4 Following advice from Procurement the interviews were cancelled and the process terminated on the basis that the process was compromised.

4.5 The advice from Procurement is that there should be a gap before recommencement of the process. Also due to potential changes in the investment strategy and information that came to light during the process, there will be a review of the requirements of the procurement process.

4.6 L&G and UBS are the current incumbent managers for the passive mandates of the Fund. Their assets under management are detailed in table below.

Asset Class	Manager	Allocation	Value at 31 March 2011
Index Linked Gilts	Legal & General	12%	£487.8m
UK Equities	Legal & General	8%	£371.4m
US Equities	UBS	8%	£417.3m

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

4.7 These two managers have performed in line with benchmarks since their inception, as expected from passive managers and there are no issues with them continuing to provide these services.

5.0 RELEVANT RISKS

5.1 There is no increase in risk to the Fund from the recommendations within this report.

6.0 OTHER OPTIONS CONSIDERED

6.1 Not relevant for this report.

7.0 CONSULTATION

7.1 Not relevant for this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no implications arising directly from this report

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 There are no implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no implications arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no implications arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no implications arising directly from this report.

FNCE/140/11

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APPENDICES

There are no appendices

REFERENCE MATERIAL

None used in the preparation of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee Appointment of Consultants for the Selection of Investment Managers	**31 March 2008**
Pensions Committee : Passive Management	**23 March 2010**
Pensions Committee Asset Allocation	**16 November 2010**
Pensions Committee Passive Management	**11 January 2011**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**PRIVATE EQUITY SEMINAR**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of a seminar being held in Manchester on 28 September 2011 by Capital Dynamics on the subject of Pension Fund investment in private equity. At the time of writing the full details are not available.

2.0 RECOMMENDATION

2.1 That Members consider whether they wish to attend the seminar.

3.0 REASON FOR RECOMMENDATION

3.1 To give Members the opportunity to attend this useful seminar on Private Equity

4.0 BACKGROUND AND KEY ISSUES

4.1 There is a requirement for Members of the Pensions Committee to receive appropriate training and for this to be documented under the Knowledge and Skills Framework.

4.2 Private Equity is an important and complex asset class that MPF has invested in for many years. There is an ongoing programme to provide training for elected Members in all types of asset classes.

4.3 Capital Dynamics is a well respected private equity firm; their staff hold key positions within the trade organisation for private equity (British Venture Capital Association).

4.4 The sessions include

Private Equity Seminar
The seminar will bring together a range of industry practitioners, including Limited Partners and General Partners to discuss the “hot” topics in private equity and how the industry may evolve in the coming years. Speakers and panellists will include a selection of specialists.

Private Equity Training
The morning training session is aimed at trustees and newcomers to the asset class. It will explain what private equity is, how it works and the benefits it can provide

5.0 RELEVANT RISKS

5.1 The Authority is required to prove that Trustees have been adequately trained. This conference is a training opportunity in a specialist asset class.

6.0 OTHER OPTIONS CONSIDERED

6.1 Not relevant for this report.

7.0 CONSULTATION

7.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no implications arising directly from this report

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The cost of attendance will be limited to travel costs which can be met from the existing Pension Fund budget.

10.0 LEGAL IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no implications arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no implications arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no implications arising directly from this report.

FNCE/141/11

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APPENDICES

None

REFERENCE MATERIAL

None used in the preparation of this report.

SUBJECT HISTORY (last 3 years)

Pensions Committee	29 March 2011
Pensions Committee	23 March 2010
Pensions Committee	18 June 2009
Pensions Committee	24 June 2008

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**GOVERNANCE POLICY STATEMENT**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of a number of amendments required to the Governance Policy Statement to reflect changes to arrangements and staffing and to confirm the confidentiality arrangements regarding Minutes of the Investment Monitoring Working Party (IMWP).

2.0 RECOMMENDATION

2.1 That Members approve the updated Governance Policy Statement attached at Appendix 1.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

4.1 Regulation 31 of the LGPS (Administration) Regulations 2008 sets out the requirements for the publication of a Governance Policy Statement by Pension Funds.

4.2 The current version of the Governance Policy Statement was agreed by the Pensions Committee on 6 April 2009 (Minute 90 refers).

4.3 The existing Governance statement needs to be updated to include the following:

a) Details of the Governance and Risk Working Party established following the 28 June 2010 meeting of the Committee (Minute 14 refers)

b) The post titles of the officers who attend meetings of the Fund Operating Group

c) To confirm that only the agenda, reports and Minutes of the Pensions Committee are published on the Wirral Council website.
The Minutes and reports considered by the Investment Monitoring Working Party and the Governance and Risk Working Party are not publicly available due to issues of commercial confidentiality.

5.0 RELEVANT RISKS

5.1 Publication of commercially sensitive information could result in financial or legal implications.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 The changes being made to update the Governance Policy Statement at this time are not as a result of any policy changes made and consultation will be undertaken with stakeholders before the policy statement is changed to reflect any future change of policy.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 None arising from the report.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/134/11

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APPENDICES

1 - Draft Updated Governance Policy Statement 2011.

REFERENCE MATERIAL

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	29 September 2008
Pensions Committee	14 January 2009
Pensions Committee	6 April 2009

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Appendix 1

GOVERNANCE POLICY STATEMENT

3.1 Introduction

3.1.1 This statement sets out the scheme of delegation, the terms of reference, structure and operational procedures of the delegation.

3.2 Relationship of Merseyside Pension Fund and Wirral Council

3.2.1 Wirral Council is an ‘administering authority’ under the Local Government Pension Scheme (Administration) Regulations 2008 and, as such, is simply authorised to manage assets held for the scheme and carry out any other specified activities associated with the operation of the scheme. The authority is not authorised to give investment advice generally.

3.2.2 Due to this status, the Fund is not required to be regulated by the Financial Services Authority (FSA) in order to operate its business. It is regulated by the Department for Communities and Local Government (DCLG).

3.2.3 As an administering authority, Wirral Council is required to act as if the Fund were set up under trust with the authority itself as the sole trustee, although the assets are not trust assets in the legal sense.

3.3 Pensions Committee

3.3.1 **Membership**

The Committee is comprised of fifteen voting members; ten of whom are members of Wirral Council, four members from the other local authorities and one member representing the other employing organisations in the Fund. Three trade union representatives, with observer status, are invited and represent active, deferred and pensioner members.

SCHEME OF DELEGATION OF (NON-EXECUTIVE) FUNCTIONS TO COMMITTEES

3.3.2 Under its Constitution, the council delegates, under Section 101 of the Local Government Act 1972 to Pensions Committee all those non-Executive functions vested in it, identified in the terms of reference for the Committee (See paragraph 3.3.3 below).

The Scheme delegates powers and duties within broad functional descriptions and includes powers and duties under all legislation present and future within those descriptions and all powers and duties including any statutory re-enactment or moderation of the legislation referred to in this Scheme.

Any exercise or responsibility for functions or delegated powers shall comply with:

- any statutory requirements;
- the Council's Constitution;
- the Council's Budget and Policy Framework and approved budget;
- the Members Code of Conduct;
- the Code of Recommended Practice on local authority publicity;
- the agreed arrangements for recording decisions;

This scheme does not delegate any matters reserved by law to the full Council or assigned to the Executive.

3.3.3 Pension Committee Terms of Reference

1) To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of the County of Merseyside Pension Fund, and in particular the following:

2) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

3) To appoint and terminate professional advisers to, and external managers of, the Fund and agree the basis for their commission and remuneration.

4) To receive actuarial valuations of the Fund and determine the level of employers' contributions necessary to balance the Fund.

5) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

6) To consider any views expressed by employing organisations, staff representatives and other stakeholders relating to the Fund.

7) To appoint members of the Investment Monitoring Working Party, which shall have responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.

8) To appoint members of the Governance and Risk Working Party, which shall have responsibility for reviewing governance and risk issues and regularly reporting their findings to the Pensions Committee.

8) To award contracts for goods and services relating to the Fund in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisors (where appropriate).

SCHEME OF DELEGATION OF FUNCTIONS TO OFFICERS

The Director of Finance

3.3.4 The following functions, particular to the Pension Fund, are delegated to the Director of Finance pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

1) Undertake all day to day administration of, and investment decisions for, the Merseyside Pension Fund within the policy laid down by the Pensions Committee including the authorisation of admission agreements with transferee admission bodies pursuant to Best Value arrangements, as required by the Local Government Pensions Scheme Regulations.

2) Terminate a contract of an external investment manager and enter into any consequential arrangements for the transitional management of the Fund's investments pending the decision of the Pensions Committee on the award of a new contract.

The Director of Finance may authorise officers in his department to exercise on his behalf, functions delegated to him. Any decisions taken under this authority shall remain the responsibility of the Director of Finance and must be taken in his name, and he shall remain accountable and responsible for such decisions.

3.4 Decision-making structure

3.4.1 The structure for the management of the Fund is as follows:

PENSIONS COMMITTEE

14 elected Members
1 employer representative
3 active, deferred and pensioner member representatives
(minimum of 5 meetings per annum)

↓

INVESTMENT MONITORING WORKING PARTY

Members of Pension Committee +
Director of Finance +
The Head of Pension Fund+
Independent advisers
(6 meetings per annum)

GOVERNANCE AND RISK WORKING PARTY

Members of Pensions Committee+
Director of Finance +
The Head of Pension Fund+ Other officers as required
(Monthly 1 or 2 meetings per annum)

↓

FUND OPERATING GROUP

Director of Finance + Deputy Director of Finance + Head of Pension Fund + Principal Pension Officer + Senior Investment Manager + Financial Controller (and deputies)
(monthly meetings)

↓

HEAD OF PENSION FUND

3.5 The functions for the various elements are as follows:

3.5.1 **Pensions Committee**

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of the County of Merseyside Pension Fund.

3.5.2 **Investment Monitoring Working Party (IMWP)**

Has responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.

3.5.3 **Fund Operating Group (FOG)**

Forum for formal monthly reports to the Director of Finance on the day to day operations of the Fund.

3.5.4 **Head of Pension Fund**

Responsible to the Director of Finance and has delegated authority to make investments or to delegate to other employees investment decisions in accordance with the Fund's strategic benchmark and delegated dealing limits.

3.6 Policy on Training and Expenses

3.6.1 Details of the policy on training and payment of expenses in respect of members of the Pensions Committee is set out in annex 1 attached.

3.7. Accountability and Publication of Information

3.7.1 Details of Pensions Committee meetings are published on the Wirral MBC website together with agendas, reports to be considered by the Committee and minutes of proceedings. The meetings of the Pensions Committee which are held at Wallasey Town Hall are open to the public

3.7.2 An Annual Pension Fund Report and Accounts is published and circulated to all employing bodies reporting on the activities and investment performance of the Fund during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Fund website. Extracts of the annual report and details of its availability are also reported in the "beeline" newsletter sent to all scheme members.

3.8. Meetings With Stakeholders

3.8.1 An Annual Employer Conference is held to which all Fund employers and elected members of the Pensions Committee are invited to attend. The annual conference is an opportunity for employers to question and challenge officers and elected members on matters of interest to their authorities and organisations.

3.8.2 The Fund also holds other meetings as required with Employers to discuss important issues. Those held in recent years have considered the Funding Strategy, Proposed changes to Inland Revenue Treatment of Pensions, Internal Dispute Resolution and Ill Health Retirement Policy and Procedures.

3.9. Compliance Statement

3.9.1 The Fund fully complies with the best practice guidelines on governance issued by the DCLG and details can be found at annex 2 attached.

ANNEX 1

Merseyside Pension Fund

TRAINING AND EXPENSES POLICY FOR MEMBERS OF PENSION COMMITTEE

1. Introduction

Myners' first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities and should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.

2. Legal Considerations

Elected members have a fiduciary responsibility to the Fund, scheme members and local council tax payers in relation to the Local Government Pension Scheme. They can delegate functions to officers but they retain overall responsibility for the management of the fund and its investment strategy, and individual decisions about investments.

Administering authorities are required to take proper advice to enable them to fulfil their obligations under the above regulations. "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed…to be qualified by his ability in and practical experience of financial matters…."

3. Training Policy and Plan

3.1 The Fund has had regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in drawing up this policy to ensure that all those involved in the decision making process receive all relevant training required to properly discharge their responsibilities.

3.2 The Fund arranges an annual program of external and internal training events throughout the year designed to meet the requirements both of new members of the Committee and the ongoing needs of existing members.

3.3 These events are reported, formally, to Members on an annual basis. Individual reports, to authorise attendance by Wirral members at these events are put to Committee on an event by event basis.

4. Policy for Payment of Expenses

4.1 The Fund will reimburse all reasonable costs and expenses incurred in undertaking approved training for all members of the Pensions Committee including the representatives of the active, deferred and pensioner members.

4.2 Claims should be submitted to the Fund and supported by an official receipt.

4.2 Members serving on the Committee from other local authorities or organisations may choose to continue to claim any such expenses from these bodies instead if they prefer.

ANNEX 2 Merseyside Pension Fund Governance Compliance Statement

Part	Governance Requirement	Fully Compliant
II/A	**Structure**	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Yes
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes
c	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes
d..	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Yes
II/B	**Representation**	
a.	That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Yes
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes
II/C	**Selection and role of lay members**	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes

II/D a.	**Voting** The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. Following consultation undertaken with all stakeholders groups during 2008 the Fund confirmed that it believes its current representation and voting arrangements are appropriate to ensure good governance. Although they do not have voting rights the three trade union members representing the interests of active, pensioner and deferred members are able to play a full role in all aspects of the Governance of the Fund, including attendance at the Pension Committee and Investment Monitoring Working Party. They receive copies of all reports and are included in all training and briefings.	Yes
II/E a. b.	**Training/Facility time/Expenses** That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	 Yes Yes
II/F a. b. c.	**Meetings (frequency/quorum)** That an administering authority's main committee or committees meet at least quarterly. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	 Yes Yes Yes

II/G a.	**Access** That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes
II/H a.	**Scope** That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes
II/I a.	**Publicity** That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes

DRAFT
16 May 2011

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**EQUITABLE LIFE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of progress in the implementation of a compensation scheme for members of the Equitable Life With-Profits scheme impacting on members and former members of the Merseyside Pension Fund in house AVC scheme and a distribution of profits scheme announced by the Company.

2.0 RECOMMENDATION

2.1 That Members note the report.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

4.1 Equitable Life was appointed as the sole in house AVC provider for Merseyside Pension Fund from April 1988. Among the range of savings options offered by the Company was a With-Profits plan which was chosen by a large number of scheme members who decided to pay AVCs (1,682 members in 2001).

4.2 Following legal challenges about the operation of the Equitable Life With-Profits Fund and a decision of a case against the Society in the House of Lords on 20 July 2000, the Company was put up for sale and was closed to new business on 8 December 2000. Merseyside Pension Fund made a decision at that time on behalf of scheme members to redirect any further AVC With-Profits contributions received to the Society Building Society deposit arrangement.

4.3 In July 2001 Equitable Life imposed a 16% cut in the value of with-profits pension policies with restrictions on further growth to be applied.

4.4 Merseyside Pension Fund appointed Standard Life originally to provide a choice of AVC additional provider in March 2001 and later, following the closure of Equitable Life to new business, also appointed Prudential as an additional provider.

4.5 In Autumn 2001 Merseyside Pension Fund negotiated a bulk transfer with a reduced Market Value Adjustment (MVA) reduction for those members who wished to move their funds out of with-profits with Equitable Life with payment made on 1 February 2002. Due to the MVA adjustments that would have applied on switching from with-profits many members chose to leave existing AVC funds with Equitable Life.

4.6 Following a number of inquiries including one by the Parliamentary Ombudsman into the conduct of business by Equitable Life in respect of the operation of its With-Profits Fund and guaranteed annuity payments, a compensation scheme has been set up by the Government to provide some financial compensation for those who suffered financial loss in certain specified circumstances.

4.7 A total of 446 current active and deferred members of Merseyside Pension Fund still have money invested in the Equitable Life With-Profits Fund and many others have retired, died, left or transferred out of the With-Profits Fund since the House of Lords decision in 2000 (including 332 members who chose to join in the bulk surrender option negotiated in 2001 which enabled members to transfer out of Equitable Life to Standard Life), and it is still unclear who may be eligible for any compensation payment.

4.8 Merseyside Pension Fund has submitted a number of representations to the Treasury and to the Independent Commission on Equitable Life Compensation in order to seek to ensure that members of group AVC schemes are treated fairly in comparison to individual policyholders with the Company.

4.9 The Treasury has published a document entitled “The Equitable Life Payment Scheme design” in May 2011.

4.10 For Group Policies such as that held by Merseyside Pension Fund in respect of members who paid into With-Profits AVCs with Equitable Life the Company has insufficient data to contact any members eligible for a compensation payment directly and will be liaising with trustees (Merseyside Pension Fund) in order to obtain up to date data.

4.11 **Members of group schemes are therefore unlikely to be contacted or receive any compensation payment due to them within the first 12 months of the compensation scheme.**

4.12 Whether any members of the Merseyside Fund group AVC plan are entitled to any compensation payment and if so the amount of it has not yet been finalised or announced.

4.13 The Treasury document does not make clear whether any compensation payment due will be made as one payment to Merseyside Pension Fund to then distribute to individuals or separate individual payments by crossed warrants **within three years from now.**

Distribution of capital to policyholders

4.14 The Society has been looking at how it can transfer to policyholders some of the surplus solvency capital that it holds. It explains that it is important to have rainy day money, of course, which is what solvency capital is. But it is also important that with-profits policyholders leaving the Society receive their fair share of capital, provided there is enough left for those who remain.

4.15 Therefore from 1 April 2011, the Society has earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for with-profits policyholders who leave the Society. This includes those who retire or choose to switch out of the With-Profits Fund.

4.16 The amount of the enhancement is not guaranteed and may go up or down in the future. With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. That guaranteed benefit is not affected by the enhancement.

4.17 Further details are contained in the letter from Equitable Life dated 28 March 2011 attached at Appendix 1.

5.0 RELEVANT RISKS

5.1 Members who are considering switching out of the Equitable With-Profits arrangement will be warned of the need to seek independent financial advice before making any decision to give up guarantees that they currently enjoy.

5.2 Despite the representations made by Merseyside Pension Fund to the Treasury and the Independent Commission there is no certainty at present as to how group scheme investors such as members in the group AVC plan will be treated in terms of any compensation payments.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 Merseyside Pension Fund will be informing all members who may have an interest in the option to benefit from the capital distribution offer currently available and the compensation scheme when final details are available.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 Merseyside Pension Fund will be required to carry out a significant communication exercise when any financial compensation arrangement is finalised and may be required to forward any compensation payments to members affected.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/120/11

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APPENDICES

1 – Letter dated 28 March 2011 from Equitable Life re bonus distribution.

REFERENCE MATERIAL
Lord Penrose Report of the Equitable Life Inquiry published 8 March 2004
Letter dated 13 September 2010 to Mark Hoban MP Financial Secretary to the Treasury
Letters dated 8 November 2010 and 1 December 2010 to Brian Pomeroy Chair of the Independent Commission on Equitable Life Payments.
HM Treasury “The Equitable Life Payment Scheme design” dated May 2011

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

28 March 2011

Good news for with-profits policyholders

The Society has been looking at how we can get into policyholders' hands some of the solvency capital that we hold. It is important to have rainy day money, of course, which is what solvency capital is. But it is also important that with-profits policyholders leaving the Society receive their fair share of capital, provided there is enough left for those who remain.

So, from 1 April 2011, the Society has earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for with-profits policyholders who leave the Society.

This is our way of enhancing value for policyholders.

Q: What is this new policy enhancement?

A. From 1 April 2011, the Society has earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for with-profits policyholders who leave the Society. The aim of the enhancement is to give with-profits policyholders leaving the Society their fair share of capital, and leave enough for those who remain.

The amount of the enhancement is not guaranteed and may go up or down in the future.

With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. That guaranteed benefit is not affected by the enhancement.

Q: How can I work out what this enhancement is worth?

A. The way to see what that is worth to you is by turning to the surrender value or transfer value of your with-profits benefits in your Annual Statement. That's what your policy was worth at the end of 2010. From 1 April 2011, £125 will be added for every £1,000 of that policy value.

If your Annual Statement does not show a surrender value or transfer value, we can arrange to send you an illustration of the current maturity/surrender/transfer value. This will include the enhancement. You can call us on 0845 6036771.

Q: Is the 12.5 % enhancement certain to be paid?

A. No. The amount of the enhancement may go up or down in the future. That may happen if, for example, investment conditions change significantly.

With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. That guaranteed benefit is not affected by the enhancement.

Q: How often will the Society review or amend the enhancement?

A. We expect to review Policy Values and the enhancement at least once a year, but they can be changed at any time. Although the enhancement is not guaranteed and can be changed, we hope that it can be maintained.

Q: Why isn't the enhancement guaranteed?

A. Guaranteed benefits always require the Society to hold back more capital – exactly the opposite of what we want to do.

Q: I recently received a payment from a with-profits policy, will the 12.5% enhancement have been included?

A. If benefits were taken before 1 April 2011, then the policy was not eligible for enhancement. If benefits were taken on or after 1 April 2011, then the enhancement would have been taken into account.

Q: Will the policy value shown in the 2010 annual statements reflect the 12.5% enhancement?

A. No. The annual statements issued at the end of March 2011 show the surrender or transfer value of your with-profits policy as at 31 December 2010 – before the 12.5% enhancement.

From 1 April 2011, whenever you are quoted values, the new enhancement will typically be included.

Q: If I have a minimum guaranteed benefit, am I going to benefit?

A. The guaranteed benefit is not affected by the enhancement – the enhancement is attached to the underlying value of your policy.

If you take your benefits at a time when the guarantee applies and the total of the Policy Value and enhancement works out at more than the guaranteed benefit, then we will pay the larger figure.

If you take your benefits at a time when the guarantee applies and the total of the Policy Value and enhancement works out at less than the guaranteed benefit, then we will pay the guarantee.

Q: If I pay a premium into my policy will it get an enhanced payment?

A. No. The 12.5% enhancement is based on the with-profits policy value as at 31 December 2010 and therefore any premiums paid (including switches from unit-linked funds) after that date do not qualify.

Q: How will policyholders be told about the enhancement?

A. We have enclosed details of the enhancement with the Annual Statements issued to policyholders in the week commencing 28 March.

Q: Why is the Society paying the enhancement now?

A. Over the last two years, we have put great emphasis on rebuilding the capital base of the Society. Now, as part of our strategy of recreating policyholder value, we want to begin to get capital into the hands of our policyholders.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**PUBLIC ACCOUNTS COMMITTEE REPORT ON PUBLIC SECTOR PENSIONS**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The report informs Members of the report published on 26 May 2011 by the House of Commons Committee of Public Accounts on the impact of the 2007 - 2008 changes made to public sector pensions.

2.0 RECOMMENDATION

2.1 That Members note the report.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

4.1 In 2007-2008, new pension schemes were introduced for civil servants, NHS staff, teachers and local government employees. The changes made were in response to Treasury requirements for savings in taxpayer costs to make public service pensions affordable. Although the report focuses on the unfunded public service pension schemes many of the issues raised in its findings and its recommendations, in terms of future reform are equally applicable to the Local Government Pension Scheme.

4.2 Three main changes were made in 2007-2008:

(1) The age at which a scheme member could choose to draw a full pension was increased from 60 to 65 years for new members. This change had been introduced into the LGPS from 1 October 2006 and except for certain protected individuals service after 31 March 2008 was also made subject to this new provision for existing LGPS members.

(2) Employee contributions were increased by 0.4% of pay for teachers, by up to 2.5% of pay for NHS staff and tiered contributions introduced into the LGPS.

(3) A new cost sharing and capping mechanism was introduced to transfer, from employers to employees, extra costs that arise if pensioners live longer than previously expected.

4.3 The Government announced additional changes in 2010, including indexing pensions to the Consumer Prices Index rather than the Retail Prices Index, which are expected to reduce costs further.

4.4 <u>The Report Conclusions and Recommendations</u>

a) **Government projections show that the expected cost of public service pensions has reduced substantially because of changes made in 2007 and 2008.**
The changes made would keep the cost of public service pensions stable at 1% of GDP - generating more than £67 billion in savings to the taxpayer over the next 50 years. The exact range of savings is unclear because sensitivity analyses were not conducted on significant areas of uncertainty such as the size of the public service workforce.

b) Uncertainty about the discount rate used to set pension contribution levels has in the past undermined confidence about how future costs of pensions are valued.
The discount rate is used to determine the annual levels of employer and employee contributions to pension schemes. A lower discount rate leads to higher contributions from employees and employers, reducing the long-term cost of pension schemes to taxpayers.

c) Cost sharing and capping is the change intended to deliver 60% of the projected cost savings over the next 50 years, but it is not yet clear when it will be implemented or in what form.
The delay so far in implementing cost sharing and capping is largely due to the time taken to revise the discount rate. Additional uncertainty has arisen from the Hutton Commission recommendation to replace cost sharing and capping with a cost ceiling that fixes an upper limit on the amount the Government contributes to employees' pensions.

d) There is no measure defining an affordable level of expenditure on public service pensions, against which actual costs can be compared.
The Treasury reports on public service pension costs as a proportion of GDP, but has no criteria by which to judge their affordability. The Treasury should set out what it believes is an affordable level of spending so that it can assess the cost of public service pensions against a clear benchmark.

e) Employees are not given the information they need to understand the value of their pensions.
This hinders their ability to make rational decisions about important matters such as alternative employment options or whether to stay in, or opt out of, a pension scheme.

f) It is not clear whether wider measures to encourage pension saving through occupational schemes are effective.
The Treasury should clearly set out the costs and benefits of each measure of pension support, who benefits from each form of support, and how it judges the success of each measure.

g) Changes to public service pensions affect other areas of public spending, such as means-tested benefits, but not all of these impacts have been identified and assessed.
For example, increasing the amount that employees have to contribute to pension schemes could result in more people opting out of their pensions and having to rely on means-tested benefits, leading to extra costs to the public purse. Important implications of this kind need to be evaluated and understood. In particular, the Treasury should ensure that decisions to change public service pensions take into account the potential impact on spending on means-tested benefits.

h) Further reforms expected in the near future present the opportunity for the Government to determine a stable, long-term direction for public service pensions.
The Treasury announced in the 2011 Budget that it will propose further changes to public service pensions once it has consulted public service workers, unions and others on the Hutton Commission recommendations. The Treasury should set out clear objectives for any further changes, develop consensus around those changes and put in place arrangements to monitor progress. It should then aim for a period of stability so that employees' confidence in the value of their pensions is not undermined by fears that further changes will be made.

5.0 RELEVANT RISKS

5.1 The Public Accounts Committee outlines a number of risks involved in further reforms including the potential for increased numbers of optants out of the public sector schemes including the LGPS of scheme members faced by increased contributions and reductions in benefits and the potential impact on means tested state benefits.

5.2 In terms of the LGPS the impact on the maturity profile of the funds of increased numbers of optants out at the same time as reductions in the size of the local authority workforce may result in a need to review investment strategies with a potential resulting increase in employer contribution rates.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 Details of the consultation by the Public Accounts Committee and of oral evidence given are set out in the report (Appendix 1 attached).

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The outcome of the current reform of public service pension schemes including the LGPS will have significant financial implications for employers and scheme members.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

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FNCE/125/11

APPENDICES

1 – House of Commons Committee of Public Accounts report on the Impact of the 2007-08 changes to public service pensions - May 2011

REFERENCE MATERIAL

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

House of Commons

Committee of Public Accounts

The impact of the 2007–08 changes to public service pensions

Thirty-eighth Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons to be printed 11 May 2011

HC 833
Published on 26 May 2011
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
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Justine Greening (*Conservative, Putney*)
Matthew Hancock (*Conservative, West Suffolk*)
Chris Heaton-Harris (*Conservative, Daventry*)
Joseph Johnson (*Conservative, Orpington*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)
Mr Austin Mitchell (*Labour, Great Grimsby*)
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following member was also a member of the committee during the parliament:
Eric Joyce (*Labour, Falkirk*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

In 2007-08, new pension schemes were introduced for civil servants, NHS staff and teachers. The changes were in response to Treasury requirements for savings in taxpayer costs to make public service pensions affordable.

Three main changes were made. First, the age at which a scheme member could draw a full pension was increased from 60 to 65 years for new members. Second, employee contributions were increased by 0.4% of pay for teachers and by up to 2.5% of pay for NHS staff. Third, a new cost sharing and capping mechanism was introduced to transfer, from employers to employees, extra costs that arise if pensioners live longer than previously expected. The Coalition Government announced additional changes in 2010, including indexing pensions to the Consumer Prices Index rather than the Retail Prices Index, which are expected to reduce costs further.

Government projections suggest that the 2007-08 changes are likely to reduce costs to taxpayers of the pension schemes by £67 billion over 50 years, with costs stabilising at around 1% of Gross Domestic Product (GDP) or 2% of public expenditure. This would be a significant achievement. We would, however, encourage the Treasury to publish a clear measure or benchmark of affordability which indicates the level of spending on public service pensions it considers sustainable. Officials appeared to define affordability on the basis of public perception rather than judgement on the cost in relation to either GDP or total public spending.

We are concerned that the Treasury did not test the potential impact of changes in some of the key assumptions underpinning the long-term cost projections. These include assumptions about the rate of growth in GDP, the size of the public service workforce, and the wider impact of the 2007-08 changes on increased payments in means-tested benefits and reduced receipts from taxation and national insurance. In addition, the Treasury has not tested whether reducing the value of pensions would affect the public sector's ability to recruit and retain high quality staff.

We heard concerns that the discount rate used to set pension contribution levels was too high. A lower discount rate leads to higher contributions from employees and employers, reducing the long-term cost of pension schemes to taxpayers. Following a Treasury review including a public consultation, the Government has now set a new, lower discount rate which was announced in the 2011 Budget. This has removed uncertainty about the appropriate level of the discount rate.

Three-fifths of the savings to the taxpayer were expected to come from the cost sharing and capping mechanism. Under this mechanism, employees would bear a greater share of costs, potentially paying 70% more for their pensions over the next 50 years if life expectancy continues to increase more than expected. However, implementation of the mechanism has been deferred, initially because of the Treasury's discount rate review. Implementation remains on hold while the Government decides how to respond to the Independent Public Service Pensions Commission (the Hutton Commission), which has recommended that cost sharing and capping be developed into a 'cost ceiling' that sets an

upper limit on the amount the Government contributes to employees' pensions. An early decision to implement cost sharing and capping is important for providing certainty to both employees and employers.

Pensions form a substantial share of the total salary package received by public service employees. We are concerned that employees do not have a clear understanding of the value of their pensions because they are not provided with clear and intelligible information to enable them to make rational decisions. This may mean the benefits of public service employment are not fully appreciated by current and prospective employees, potentially diminishing the influence of pensions as a recruitment and retention tool.

Public service pensions policy is not joined up with planning in other areas of public policy and spending. Whilst this is not a new issue, we still found it concerning given the potential impact that pension changes could have on areas such as future demand for means-tested benefits. There is little evidence to judge whether wider pension policy measures are effective, including measures such as tax relief and other incentives to encourage people to save for their retirement.

Further changes to public service pensions are expected in the near future. In the 2011 Budget, the Government announced that it had accepted the Hutton Commission's recommendations for long-term structural reform of public service pensions as the basis for consultation with public sector workers, unions and other interested parties. Following this consultation, it will set out proposals in autumn 2011. This provides the opportunity for the Government to develop a clear strategic direction for public service pensions. We look forward to the Government's detailed proposals and, following their implementation, a period of much-needed stability and certainty for long-term public service pensions policy.

We took evidence on two reports from the Comptroller and Auditor General, looking at the cost of public service pensions and the impact of the 2007-08 changes.[1]

1 C&AG's Report, *The cost of public service pensions*, HC 432, Session 2009-2010 and C&AG's Report, *The impact of the 2007-08 changes to public service pensions*, HC 662, Session 2010-2011

Conclusions and recommendations

1. **Government projections show that the expected cost of public service pensions has reduced substantially because of changes made in 2007 and 2008.** The Treasury expects the cost of pension payments to retired civil servants, NHS staff and teachers to stabilise over the next 50 years at around 1% of GDP, as a result of the 2007-08 changes. This would be a significant achievement. The exact range of savings is unclear because sensitivity analyses were not conducted on significant areas of uncertainty such as the size of the public service workforce. The Treasury acknowledged the need for more robust analysis in future, and we welcome its commitment to carry out deeper sensitivity analysis when considering further pension changes.

2. **Uncertainty about the discount rate used to set pension contribution levels has in the past undermined confidence about how future costs of pensions are valued.** The discount rate is used to determine the annual levels of employer and employee contributions to pension schemes. A lower discount rate leads to higher contributions from employees and employers, reducing the long-term cost of pension schemes to taxpayers. The Treasury told us that the existing discount rate was too high and, following a public consultation, the Government set a lower rate. At the same time the Government committed to reviewing the discount rate every five years. In order to maintain certainty for both employees and employers in the future, we expect these reviews to be conducted promptly and transparently.

3. **Cost sharing and capping is the change intended to deliver 60% of the projected cost savings over the next 50 years, but it is not yet clear when it will be implemented or in what form.** The delay so far in implementing cost sharing and capping is largely due to the time taken to revise the discount rate. Additional uncertainty has arisen from the Hutton Commission's recommendation to replace cost sharing and capping with a cost ceiling that fixes an upper limit on the amount the Government contributes to employees' pensions. The Government will consult on the Hutton recommendations before setting out its proposals for further change in autumn 2011. As soon as possible following the consultation, the Treasury should publish its timetable for implementing cost sharing and capping or an alternative scheme, as well as the expected cost savings.

4. **There is no measure defining an affordable level of expenditure on public service pensions, against which actual costs can be compared.** The Treasury reports on public service pension costs as a proportion of GDP, but has no criteria by which to judge their affordability. The Treasury should set out what it believes is an affordable level of spending so it can assess the cost of public service pensions against a clear benchmark.

5. **Employees are not given the information they need to understand the value of their pensions.** This hinders their ability to make rational decisions about important matters such as alternative employment options or whether to stay in, or opt out of, a

pension scheme. Public service employers should make clear to prospective and existing employees the financial value a pension adds to their salary package. The Treasury should work with employers and pension schemes to ensure clear and relevant information is provided to employees on the value of their pensions, and that this information is regularly updated and its usefulness to staff assessed.

6. **It is not clear whether wider measures to encourage pension saving through occupational schemes are effective.** The UK's pension model has traditionally relied on strong occupational pensions to supplement the state pension. However, the progressive decline in the number and value of occupational pension schemes, particularly in the private sector, means that many people are not saving enough for their retirement. The Treasury encourages pension saving through occupational and other schemes by spending substantial sums of money on tax relief and reductions in national insurance contributions, but has not explained whether these measures are cost-effective and well-targeted. The Treasury should clearly set out the costs and benefits of each measure of pension support, who benefits from each form of support, and how it judges the success of each measure.

7. **Changes to public service pensions affect other areas of public spending, such as means-tested benefits, but not all of these impacts have been identified and assessed.** For example, increasing the amount that employees have to contribute to pension schemes could result in more people opting out of their pensions and having to rely on means-tested benefits, leading to extra costs to the public purse. Important implications of this kind need to be evaluated and understood. In particular, the Treasury should ensure that decisions to change public service pensions take into account the potential impact on spending on means-tested benefits.

8. **Further reforms expected in the near future present the opportunity for the Government to determine a stable, long-term direction for public service pensions.** The Treasury announced in the 2011 Budget that it will propose further changes to public service pensions once it has consulted public sector workers, unions and others on the Hutton Commission's recommendations. The Treasury should set out clear objectives for any further changes, develop consensus around those changes and put in place arrangements to monitor progress. It should then aim for a period of stability so that employees' confidence in the value of their pensions is not undermined by fears that further changes will be made.

1 Achieving affordability

1. Projections by the Government Actuary's Department suggest that the changes made in 2007-08 to the civil service, NHS and teachers' pension schemes will bring substantial savings in taxpayer costs worth £67 billion over 50 years and stabilise their costs at around 1% of GDP.[2] Additional changes announced in 2010 are expected to reduce costs further. These changes include using the Consumer Prices Index rather than the Retail Prices Index to uprate pensions in future, and a phased increase in employee contribution rates to most schemes by an average of 3% of pay.[3]

2. Some of the assumptions underlying the projections have not been tested. The Treasury carried out sensitivity analysis on one key assumption, the age to which pensioners are expected to live, but did not do so for other assumptions.[4] Important areas of uncertainty are: the validity of assumptions that the public sector workforce will remain static over time and that long-term GDP growth will average 2.2% a year to 2050;[5] the rate of opt-out from the schemes if employee contributions rise;[6] and the impact of declines in the value of public service pensions on the attractiveness of public service employment and on payments of means-tested benefits.[7]

3. At the time of our hearing, a further area of uncertainty was the discount rate used to determine the annual level of employee and employer contributions to public service pension schemes. Since the late 1990s, a discount rate of 3.5% above the Retail Prices Index has been used.[8] Dr Ros Altmann told us that this was too high for schemes to be sustainable and that a lower rate based on the government borrowing rate would be more appropriate.[9] A lower discount rate would result in higher pension contributions from either employees or employers, or from both.[10]

4. The Treasury acknowledged that the existing discount rate was "beginning to look a bit on the high side",[11] and recognised that this may have a distortionary effect since departments will not bear the full costs of the people they employ.[12] It conducted a public consultation on setting a new discount rate, which concluded on 3 March 2011.[13] Following our hearing, the Government announced in the 2011 Budget that the discount rate would be set at 3% above the Consumer Prices Index. This is 1.3% lower than the

2 Q 58; C&AG's Report, HC 662, para 5

3 Qq 58, 70; C&AG's Report, HC 662, para 2.6

4 Q 68; C&AG's Report, HC 662, para 10

5 Qq 23, 61-63, 68; Ev 21

6 Qq 143, 148, 151; C&AG's Report, HC 662, para 10

7 Qq 83-85, 144-147; C&AG's Report, HC 662, para 12

8 Q 69. This discount rate is equivalent to 4.3% above the Consumer Prices Index over the long term, based on Office for Budget Responsibility analysis.

9 Qq 29, 38-39

10 Qq 28, 77; C&AG's Report, HC 662, para 3.14

11 Q 69

12 Q 100

13 Qq 69, 100; C&AG's Report, HC 662, para 4

current rate and is based on the long-term expectation of GDP growth. In future, the level of the discount rate will be subject to review every five years.[14]

5. The review of the discount rate has held up implementation of cost sharing and capping,[15] a key element of the 2007-08 changes which is projected to deliver 60% of the overall savings in taxpayer costs to 2059-60.[16] Cost sharing and capping is a mechanism designed to ensure that the taxpayer does not bear the extra cost of people living longer than expected and therefore drawing their pensions for a longer period. If longevity increases beyond projections, the mechanism increases employee contribution rates and/or reduces the value of pensions received in the future.[17] The mechanism is to be applied at the actuarial valuations of pension schemes which routinely take place every three or four years.[18]

6. The delay in implementing cost sharing and capping created a risk that employees might face higher and more sudden increases in contribution rates than would otherwise have been the case.[19] Since our hearing, the Hutton Commission has recommended developing cost sharing and capping into a cost ceiling for schemes, which would set an upper limit on the amount the Government contributes to employees' pensions.[20] It also recommended controlling future costs by linking the age at which members can draw a full pension to the state pension age.[21] In the 2011 Budget, the Government accepted these recommendations as the basis for consultation with public sector workers, unions and other interested parties.[22] However, until the Government sets out firm proposals in the autumn, it will not be clear whether or how cost sharing and capping will be implemented, or the likely impact on employee contribution rates in the future.

7. While the Government Actuary's Department projections suggest that the 2007-08 changes will stabilise public service pension costs as a proportion of GDP, it is not clear whether this means they can be considered affordable.[23] The Treasury monitors its preferred financial measure of affordability, taxpayer cost as a proportion of GDP, but has not set out a benchmark level of expenditure which it considers to be affordable.[24] There are also other measures of affordability which could be used, such as public service pension costs as a proportion of public expenditure, or the level of public service pensions compared to private sector pensions.[25]

14 HM Treasury, *Budget 2011*, HC 836, Session 2010-11, 23 March 2011, para 2.13

15 Q 124

16 Qq 70, 123; C&AG's Report, HC 662, para 2.7 and Figure 9, page 25

17 Q 134; C&AG's Report, HC 662, paras 3 and 3.3-3.4

18 Q 124

19 Qq 123-129, 139, 142; C&AG's Report, HC 662, para 6

20 Independent Public Service Pensions Commission, *Final Report*, 10 March 2011, Recommendation 12, page 13

21 Independent Public Service Pensions Commission, *Final Report*, 10 March 2011, Recommendation 11, page 13.

22 HM Treasury, *Budget 2011*, HC 836, Session 2010-11, 23 March 2011, para 2.12

23 Qq 58, 65

24 Qq 58, 65

25 Qq 19-20, 65

8. Public service pensions are paid either on the basis of an individual's final salary or on earnings averaged over his or her entire career (career average salary). Final salary schemes, which predominate, create anomalies that skew reward to high earners and those promoted late in their careers.[26] Some senior civil servants have built up pension benefits with a capital value of more than £2 million, which means that those individuals would receive pension payments of over £100,000 a year on retirement.[27] On average, however, public service pensions are not high: in 2008-09 the average annual pension received ranged from £5,900 for civil servants to £9,400 for teachers.[28] The Treasury told us that it had favoured all schemes moving to career average salary schemes in 2007-08 since this would produce fairer outcomes for most staff.[29] However, the civil service scheme was the only one that did so, and only for its new staff.[30] The Hutton Commission has since recommended widespread adoption of career average salary schemes.[31]

26 Qq 10, 80

27 Qq 95-96; Ev 21

28 Qq 11, 80; C&AG's Report, HC 432, Figure 3, page 13

29 Qq 80, 91

30 C&AG's Report, HC 662, para 12

31 Independent Public Service Pensions Commission, *Final Report*, 10 March 2011, Recommendation 7, page 10

2 Improving clarity and transparency

9. Public service staff do not have a good understanding of the value of their pensions, in part because employers and schemes do not provide them with clear and intelligible information.[32] This means employees are not able to make fully informed decisions when planning for their retirement and considering alternative employment options. It also limits the ability of public service employers to use pensions effectively to aid recruitment and retention.[33]

10. The Deputy Director of the NHS scheme told us that four in ten members did not understand what size pension they were going to get and, as a consequence, some had to delay retiring by three years because their pension was smaller than they had expected.[34] In 2011, the NHS scheme will begin to issue annual benefit statements to its members and in the future it plans to include details of the capital value of the pensions built up.[35] These are welcome developments.

11. For some years now, there has been a lack of clarity about the role public and private sector occupational pensions should play within the UK pension system.[36] The system has relied heavily in the past on good occupational and personal pensions to top up a state pension which provides a much lower share of retirement income than is typical across European Union and OECD countries.[37] However, this model has been undermined in recent decades by a significant decline in the extent and value of private sector occupational pensions.[38] Public service pensions have not declined by as much, and have appeared increasingly out of line with private sector pensions.[39] The Treasury told us that while there should be no "race to the bottom", it believed public service schemes should move more in the direction of private sector schemes.[40]

12. Government support, in the form of tax relief and national insurance rebates, is used to encourage individuals to save for their retirement through occupational and personal schemes. This support amounts to around £35 billion a year, equivalent to more than 2% of GDP.[41] However, it is not clear how the benefits of this support are distributed, or whether the spending could be put to better use elsewhere. The Treasury told us that the cost of the national insurance rebate alone is forecast to be £6.8 billion in 2012-13, which

32 Qq 26-27, 86, 110; C&AG's Report, HC 662, para 3.13

33 Q 36

34 Q 86

35 Q 86

36 C&AG's Report, HC 662, para 3.7

37 Q 1

38 Qq 2, 94-95, 122; C&AG's Report, HC 662, para. 1.9

39 Qq94-95

40 Q 86

41 Qq 41, 48

would be enough to fund a £10 to £15 a week increase in the basic state pension for each recipient.[42]

13. There is a further concern that the level of taxpayer spending on public service pensions could appear disproportionate to the amount spent on encouraging other savings for retirement through tax and other incentives.[43] The 2007-08 changes have transferred an increasing share of the future costs of public service pensions from taxpayers to employees. However, perceptions remain that an unwarranted level of taxpayer support is directed to public service pensions when compared with that available to private sector workers, who make up four-fifths of the total workforce.[44]

14. The implementation of the 2007-08 changes to public service pensions did not sufficiently take into account impacts on other areas of public policy and spending. For instance, there was no assessment of the impact that higher employee contributions and lower public service pensions would have on the number of people opting out of their schemes.[45] Higher opt-out rates would in turn increase future demand for means-tested benefits. Moreover, the Treasury was not able to tell us whether wider public service reforms which would give rise to new types of delivery bodies, such as GP commissioning consortia and free schools, would affect employees' eligibility to belong to public service pension schemes in future.[46]

15. More changes to public service pensions are expected over the next three years to implement decisions announced by the Government in 2010, and to respond to recommendations in the Hutton Commission's March 2011 final report on public service pensions.[47] There are costs associated with continually changing pension arrangements. These include increased administration costs and the potential impact on employees' confidence in the value of their pensions.[48] The Treasury accepts that it was a weakness of its approach to the 2007-08 changes that it did not set out clear and measurable objectives against which to monitor performance over time.[49] It is important that the Treasury clearly defines the objectives of any future changes and develops consensus around them, in order to promote a period of stability for public service pensions.

42 Qq 43-46, 54-57; Ev 21

43 Qq 5, 40

44 Qq 5, 15-17, 65; C&AG's Report, HC 662, para 3.14

45 Qq 143-151

46 Qq 111-114

47 Qq 101-108; Independent Public Service Pensions Commission, *Final Report*, 10 March 2011; HM Treasury, *Budget 2011*, HC 836, Session 2010-11, 23 March 2011, para 2.12

48 Qq 36, 101; C&AG's Report, HC 662, paras 6 and 12

49 Qq 73; C&AG's Report, HC 662, para 8

Formal Minutes

Wednesday 11 May 2011

Rt Hon Margaret Hodge, in the Chair

Mr Stephen Barclay
Dr. Stella Creasy
Matthew Hancock
Jo Johnson
Mrs Anne McGuire
Austin Mitchell
Nick Smith
Ian Swales

Draft Report (*The impact of the 2007-08 changes to public service pensions)* proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 23 May at 3.30pm

Witnesses

Wednesday 2 March 2011	*Page*
Dr Ros Altmann, Pensions Expert	Ev 1
Sir Nicholas Macpherson KCB, Permanent Secretary, **James Richardson,** Director, Public Spending, Public Services and Growth Directorate, HM Treasury and **Tim Sands,** NHS Pensions, Department of Health	Ev 7

List of printed written evidence

1	HM Treasury	Ev 21

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Mulit-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 2 March 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon	Chris Heaton-Harris
Stephen Barclay	Joseph Johnson
Stella Creasy	Mrs Anne McGuire
Jackie Doyle-Price	Austin Mitchell
Matthew Hancock	Nick Smith

Amyas Morse, Comptroller and Auditor General, and **Keith Davis**, Director of Efficiency Practice, NAO, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, NAO, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

The impact of the 2007–08 changes to public service pensions (HC 662)

Examination of Witness

Witness: **Dr Ros Altmann**, Pensions Expert, gave evidence.

Q1 Chair: Hi, I am really sorry to have kept you waiting, and may I start by thanking you very much indeed? We have asked you to come and talk to us because you are a great expert on the sort of issues that we are looking at, and I know you have also contributed to the Hutton inquiry. I have seen that report and that is very interesting evidence that you have given to them. May I just ask you a completely general question? In preparing for this session, I tried to look a little bit at how other countries paid for their pensions. Again, you will probably know much more than I do about this, but the interesting thing is that, as I understand it, in EU and OECD countries, state pensions provide 80% of retirement income, and in the UK it is only 50%. What do you take from that? Before you start to answer, may I ask that you speak up a little bit, because the acoustics in this room are dreadful?

Dr Altmann: We do have a quite unique pension system in the UK, partly because of our history, and it is one that has been based for many decades on the idea that we have a very low state pension, but that is topped up by good private pensions. And that has grown up since the 1950s, or even before. The private pension system did rely quite heavily on final salary pension schemes, which were provided quite willingly by employers until not that long ago in the UK. The idea was that the UK pension model was held up as an example for others to follow, whereby Government can keep cutting the state pension payments by relying on private sector pension schemes invested in the stock market to deliver good pensions. That was really what our system was based on.

For a while it looked as if it worked, but unfortunately it ended up confusing the two elements of pensions. The word "pensions" actually relates to two very separate things. On the one hand, the original idea of pensions was basically social welfare. So if you were old and could not work, the state would give you some money so you would not be in destitution. Normally that would be a state role. However, the other way the word "pensions" applies is to your own private savings that you accumulate over your lifetime, and therefore you will have more to live on when can no longer work. What final salary schemes did, particularly in the UK, is mix up the two elements. What you found was, instead of the state doing all the social welfare and providing an adequate, basic minimum on which private savings could be built, you had employers being asked to take on a large part of the social welfare.

Q2 Chair: I am going to ask you to speed it up, because I think we understand that. So, what do you take from that now?

Dr Altmann: I take from that that we have put too much burden on employers to provide social welfare, which in other countries in Europe, as you say, is provided by the state. Companies are now pulling out, so the traditional final salary scheme, which is a form of social welfare, is dying out, and the system we have got was relying on stock market returns in private schemes to deliver good pensions, and it has not worked, partly because the assumptions on which they were based were flawed and partly because, as we obviously all know, people are living longer and markets did not work out in the way they could.

Q3 Chair: So what do you take from that when the state reviews its occupational pension schemes? What should be the principles that underpin that, whether it is a Government review or a Hutton review or whatever it is? We are in a mess on it really, so what do you take in terms of finding a way forward that enables people who are reliant on their pension for their income to have an appropriate income?

Dr Altmann: Yes, the bottom line for me is that the state should provide what it was originally intended to provide, which is some kind of adequate social welfare floor—a minimum amount—which is the Beveridge idea, really.

Q4 Chair: So, is it alright at the moment?
Dr Altmann: No, the state pension in the UK does not provide an adequate minimum floor. It has relied on employers topping that up via final salary pension schemes to add to that social minimum floor. But as employers pull out, it is no longer reliable. If we could get an adequate state pension floor, then we could start to sort out what private arrangements can add to it on top.

Q5 Chair: But again, if we are realistic—sorry, but we are tight on time—with the current state of public finances, that is not going to happen in the short to medium term. So we are then dependent on occupational pensions in some way or another, and here we are talking about a series of occupational pensions that are funded by the state. The state either funds the pension or it then funds pensioner credit, I suppose—it does either/ or—in a way that the onus comes back to the public purse. As we move forward in taking sensible, pragmatic decisions within affordability frameworks, what do you think we should be doing? What is wrong?
Dr Altmann: What is wrong is that taxpayer resources are in danger of being diverted to provide decent pensions for only one group in the workforce, which is public sector workers, who are one-fifth of the workforce. They are provided by taxpayer resources, while at the same time, the other four-fifths, the private sector labour force, which pays the taxes that provide those pensions to public sector workers, are not receiving an adequate state pension. If we reform the state pension system to make it fairer for everybody, you can start to have a discussion about how to move forward properly. I do not believe that where we are right now is actually a sustainable place to start from. I also am not entirely sure that an adequate state pension is unaffordable. Within the envelope of spending that we have on pensions, it is affordable if the political will is there to provide it. But so far, that has not been the case.

Q6 Chair: Even with the cuts?
Dr Altmann: Even with the cuts.

Q7 Chair: How much are you thinking of, in terms of that?
Dr Altmann: At the very least, some kind of slightly above pension credit level.

Q8 Chair: Have you worked out how much that is?
Dr Altmann: £140 a week would be a good start.

Q9 Chair: How much is that in additional public expenditure terms?
Dr Altmann: It depends on how you do it. You can do it from age 75, in which case, it wouldn't cost anything. As long as you get rid of contracting out, you will actually get more money in over the short term by doing it. There are ways to do this. They have been ducked, because they are complex and difficult, which is because we have a very complex and difficult pension system.

Q10 Stephen Barclay: You mentioned the issue of unfairness. With defined benefit schemes, is it not that part of the unfairness is that the better-off get a disproportionate share of the scheme? They are more likely to see their salary go up towards the later years of their career.
Dr Altmann: Yes, John Hutton encapsulated that very well, I think.
Stephen Barclay: Could you perhaps give us some numbers around that to bring that to life?
Dr Altmann: Well, what final salary schemes in particular do—and that is not necessarily defined benefit schemes—is that they reward the high flyers. So if you get a big pay rise through your career, and particularly at the end of your career, your whole pension is based on that higher salary, even if your original contributions were made on the basis of a much lower salary. You can have a career average arrangement, which is, if you like, more equal; in that case, your pension is related much more to the average pay that you have had throughout your career. But you do have situations where the vast bulk of the pension commitments from schemes go disproportionately to the very high earners, and the very low earners lose out, relatively. So there is an inherent unfairness in the structure of final salary pension schemes.

Q11 Chair: Can you just help us? On the average of the three schemes that we looked at, what is the average pension that comes out of that? I just cannot remember where it is in the book.
Dr Altmann: Teachers are about £9,000, and the rest are about £6,000.
Keith Davis: The NHS: £7,000; Civil Service: £6,000; the armed forces £7,500. That is the annual average pension payment.
Chair: And teachers?
Keith Davis: £9,000.
Chair: £9,000? Okay.

Q12 Mrs McGuire: I am just a little taken aback by the fact that, in many parts of the country, if people have to wait to the age of 75, they might not live long enough to get their state pension, given what you said earlier.
Dr Altmann: I am not recommending; I am just saying that there are ways of doing it.

Q13 Mrs McGuire: Right, okay then. That is a bit of a relief that you are not recommending 75. I sometimes think that in this conversation we confuse state pension with what we are really discussing today, which is the occupational pension for employees of the state—for public sector employees. Can I ask whether or not you think that public sector pensions for employees are over-inflated?
Dr Altmann: There is no doubt, in my mind, that public sector pension arrangements are more generous

than the private sector equivalent arrangements are. They did not necessarily used to be, but they are now.

Q14 Mrs McGuire: Are they over-inflated?
Dr Altmann: That is not a question that one can really answer, because you have to define what you are comparing it with.

Q15 Mrs McGuire: You are comparing it with private sector pensions.
Dr Altmann: Compared with private sector pensions, public sector pensions are significantly more generous now.

Q16 Mrs McGuire: Is that a problem for the public sector, given the levels of pension that we have heard about just a few moments ago, or is that an issue that the private sector needs to address, in terms of the provision for pensioners?
Dr Altmann: I think the issue for me is that the private sector has already recognised that the kind of pension promises we have been making in the UK are unaffordable, and have therefore voted with their feet and closed the schemes. What has not yet been recognised in the public sector is that same reality. I am not trying to say that public sector workers do not deserve decent pensions. Of course they do. The problem we have got is that the cost of providing the kind of pensions we have been promising is much higher than anybody ever realised or indeed budgeted for, because it has been based on assumptions that have turned out not to be correct. Time and again those assumptions have proven not to be correct, but somehow or other they were not sufficiently adjusted to recognise reality.

Q17 Mrs McGuire: But do you think the wider discussion on pensions should not totally rely on what I think is a somewhat spurious comparison between public sector pensions and private sector pensions? Rather than racing to the bottom, we should be looking to lift more people into a far more acceptable and sustainable pension regime. Rather than saying that public sector pensions are overgenerous, to use your words, we should be looking at how we deal with those who work in the private sector in terms of their pension provision.
Dr Altmann: I entirely agree with you that one has to look at how we can deliver decent pensions to everybody. That is absolutely correct. Where we started just a few minutes ago, though, was that I am told it is unaffordable to pay a decent state pension to everybody. Now, then you have the question of taxpayer resources. You cannot get away from it, because taxpayer resources are being used to fund public sector pensions. Whether we like it or not, no money has been put aside to pay for these.

Q18 Mrs McGuire: Could I just say that, I think, again, you are drawing a distinction that perhaps in unhelpful, which is that public sector workers, as well as being the recipients of public sector pay and public sector pensions, are also taxpayers as well. I think sometimes we seek to segment, when we should be looking for a solution that would actually help those who work across various sectors, whether that is in the private sector, the public sector or indeed the voluntary sector, which is now a significant part of our employment force.
Dr Altmann: I understand that whenever you are in a position that is reasonably comfortable, it is very uncomfortable to move away from it. I do understand that.

Q19 Chair: May I just ask you a question? In preparing for today's session, I discovered that the expenditure on public sector occupational pensions is 3% to 3.5%—this is a crude, back of the envelope calculation and might be out a little bit—of public spending. That, you say, is unfair and unaffordable. So what is fair and affordable?
Dr Altmann: The way I look at it, we have a system here where even on the Government's own figures the current service pension cost is £25.4 billion a year.

Q20 Chair: 3% to 3.5% of public spending.
Dr Altmann: The annual pension payments are £19.9 billion a year. The member contributions into these schemes is £4.4 billion a year.

Q21 Chair: I am just trying to get a feel. This is not trying to trick you out, but if we have to take a judgment on what is affordable and what the state should be paying as its contribution to the people who work for the state, you believe 3% to 3.5% is unaffordable, I assume. What is affordable? This is within a total package of income, and pensions is a part of your income package, so what is affordable? What should we be looking at?
Dr Altmann: We do not know. One of the big problems that I have with this discussion is that we do not actually know what these pensions are going to cost. The figure that you cite of 3% to 3.5% of GDP—

Q22 Chair: No, not GDP. 3% to 3.5% of public spending goes on the employer contribution to the pensions of those who work in the public sector.
Dr Altmann: But that only pays today's pensions; that does not actually cater for the commitments that we have made for the future.

Q23 Chair: If this Report is correct, the 2007/08 changes will keep that at a pretty level place. Am I right?
Dr Altmann: I am questioning those assumptions.
Keith Davies: Yes, as a proportion of GDP is how we have presented the figures. So, we are presenting them as levelling out at about 1% of GDP towards the end of the 50-year period.
Dr Altmann: If your GDP figures are not correct and if your inflation assumptions are not correct—and do not forget that these pensions are 100% inflation linked, whereas in the private sector they are not—then you have a significant overshoot of spending. Now, I would suggest that taxpayers need protecting from the unexpected when we are looking that far ahead, and there is not anything here that is actually protecting taxpayers from the unexpected, which has already happened. Spending on public sector pensions

has already been overshooting significantly from what was budgeted.

Q24 Chair: But that is why action was taken in 2007/08.
Dr Altmann: The actions in 2007/08 made some elements of the pensions less generous, but they were offset by other changes that have actually made some elements of the public sector pension deal more generous.

Q25 Chair: Yes, but it switched some of the cost. I am trying to get out that it switched some of the cost of public sector pensions from the employer, i.e. the state, to the individual. Right? Of course there were some things that came out of it that were better, but on the whole, it switched some of that cost. As we look forward to the Hutton Review and to whatever, I am trying to get a feel as to whether you are saying that employees have got to pay a greater contribution? Is that what you are saying?
Dr Altmann: I am not trying to recommend anything; I am trying to point out that there is an air of unreality in the debate and in the assumptions being made about the costs.

Q26 Chair: What is your answer to it?
Dr Altmann: Well, the first answer I have is transparency, and trying to explain to the workers themselves the true value of the pension that they are accruing. A £6,000 joint life index-linked pension would be worth about £250,000 if you bought it in the market—just for a £6,000 a year pension.

Q27 Chair: Okay, so we get transparency. I agree with you about that; I think it is really important.
Dr Altmann: It is fundamental; it is not just important.

Q28 Chair: No, but you've gone beyond that. You are saying at the moment there is an unfair advantage to people working in the public sector, and the taxpayer is paying too much towards the pension. What I am trying to draw out of you is some idea of how big that is or what we could do about it.
Dr Altmann: Let me try it another way. The average pay in the public sector now is at least as good as, if not better than, that in the private sector for equivalent work. That is the official statistics. The value of a public sector pension on top of that is at least 30% extra on salary. If you look at the Bank of England pension scheme, and if you look at companies that have outsourced public sector workers to within the private sector, they are finding that the costs of replicating the public sector pension scheme is 50% of salary. So, you are in a ballpark of public sector workers being paid between 30% and 50% more than private sector workers, but public sector workers themselves have no idea that actually that is how much they are getting, and they are not paying anything like that into their own pensions. Indeed, for taxpayers today, the employer contribution is far less than the value of those pensions accruing. Somewhere in the future, taxpayers will have to pick up the balance.

Q29 Mrs McGuire: How do you get those figures of 30% to 50%, because it doesn't actually sit with information that we have from the Pensions Policy Institute?
Dr Altmann: The Pensions Policy Institute used the Treasury's own discount rate, and the Government actuaries' own discount rates. If you look at the independent estimates, if you look at the rate the Government actually borrows at, and if you look at the security of public sector pension schemes, it is not reasonable to use a discount rate that would be applied to the private sector. Indeed, it is not a rate that was used in the Independent Public Sector Pensions Commission inquiry. If you use the appropriate discount rate, which would reflect the rate the Government is borrowing at, you would come much closer to the 50% than the 30%.

Q30 Austin Mitchell: Sorry, I am just struggling, as a pensioner, to understand this. Am I right in saying that the essence of your argument is that the state should pay out less to public sector pensioners, to spread that on a better state pension, to give the private sector pension payers an easier time?
Dr Altmann: No.

Q31 Austin Mitchell: Well, surely what you are saying is that there should be a higher state pension, however funded. How is it going to be funded?
Dr Altmann: It can be funded from within the envelope of current spending. Firstly, and in fact, solely, by removing contracting out. If you take away the contracting-out anomaly, you have enough money to pay a state pension of £140 a week.

Q32 Austin Mitchell: So you are not saying, "Take money from public sector pensioners to give us a better general pension?"
Dr Altmann: I absolutely am not saying that we should—

Q33 Chair: For the over-75s, just to make that clear.
Dr Altmann: No, that would be from 65 and whatever the state pension age becomes.

Q34 Austin Mitchell: Over 75, I'm grateful for anything. I still do not see how this higher state pension for everyone is going to be funded.
Dr Altmann: By taking away contracting out. If you want extra money, which you do not need immediately, you can also review the tax relief rules on pensions, which are also very generous to top-rate taxpayers.

Q35 Austin Mitchell: And with that we could bring it up to European levels?
Dr Altmann: Probably. But I actually think, having said that, we do not want to get to European levels. European state pensions are too expensive as well. We have the problem that we have got a public sector pension system that is diverting resources to just one group in the workforce. In Europe they are paying much higher pensions to everybody, and that is equally difficult to justify in affordability terms. I am not saying that people do not deserve good pensions,

and I am certainly not saying that we should take anything away from the past-accrued rights of public sector workers. I have never said that, and I do not support that. I am talking about how we have a sustainable, fair system going forward that is equally affordable and takes away some of the risks that future taxpayers are currently bearing.

Q36 Joseph Johnson: I just want to come back to the point you were making about the fact that recipients of public sector occupational pensions do not realise how generous the terms are that they are on. I guess, what I feel about it is that it is actually a very ineffective form of remuneration, in that sense, because I have traditionally thought of a pension as being deferred salary or deferred income. However, what you are saying, and what I believe to be the case, is that employees attach a very heavy discount to the pension that they are likely to get in the future, so it is actually a very wasteful way of encouraging or tax-advantaging saving, in a way, because employees attach a massive complexity discount to that. As Austin was just saying a second ago, as a pensioner he does not understand it, and I think that is absolutely typical. You were saying that is the case generally. So there is a high discount because of complexity, and then there is a second level of discount because of the extraordinary political risk that attaches to all likely future cash flows coming from HMT. So, would you agree that it is actually a very ineffective and inefficient form of encouraging saving?
Dr Altmann: Yes, I do not see it as a form of encouraging saving; I see it as a way of rewarding loyal public sector workers, and they indeed should be rewarded. Public sector workers do a really important job for the country, and deserve fair pay and fair pensions.

Q37 Joseph Johnson: But ineffective?
Dr Altmann: What I have argued for many years is that I would like to see the value of all pensions declared up front in your pay packet for everybody—both public and private sector workers. If you are being paid £10,000 a year and your pension contributions are worth another 30%, actually your pay is £13,000. If your employer in the private sector is only putting 5% of salary in for you, then your pay is actually just £10,500. Now that would be explicit, and that would at least get us towards this transparency that I think we really need, which is to say, "This is the real value of what you are being paid," which at the moment, we are not doing.

Q38 Matthew Hancock: Isn't part of the problem with transparency that it is quite confusing, and the discount rate that you choose matters. If that proposal were taken up to include the pension contributions in the pay statement, what discount rate would you apply?
Dr Altmann: If it is an unfunded pension scheme, then the discount rate you should apply is the discount rate that is appropriate for the money that is being borrowed that needs to be used to pay that.

Q39 Matthew Hancock: So you would use a gilt rate for the UK Government?
Dr Altmann: You would use the index-linked gilt rate, potentially. You can smooth that over time or you can look at an average over the last 10 years. You do not have to necessarily look at it for the last 10 minutes, but the idea would be that you would have an independent assessment. We still have not had an official independent inquiry into the discount rate that should be used. All the official inquiries that have taken place have used the GAD assumptions. I think there is a case to be made to use outside sources to reflect what the discount rate should be.
I am quite happy if you have a range of discount rates. Maybe this is one end of the estimate and that is another end of the estimate, and everybody can argue about assumptions. You get actuaries, or accountants or economists in a room and you will get two or three different answers. We all know that that is an issue, but it is not an insurmountable one. I think the main thing is: do we seriously want to tackle this and get to grips with how much it is going to cost, or do we want to keep pretending that it is going to cost something that it does not?

Q40 Stella Creasy: I just wanted to pick up on a couple of your comments, and just test your assumptions, because you talk there also about tax relief. When you talk about the pot of money we are spending on a particular group of citizens, it is not necessarily fair to just look at the public sector pension pay pot per se. If we are going to look at pensions and what we pay in the public sector to the broader cost of the taxpayer, we should include tax relief in that, shouldn't we? If we are going to start looking at some of the sums and some of the affordability of some of these proposals, we should also consider the way in which we apply tax relief.
Dr Altmann: There are lots of different elements of pension spending that I think it might be useful to tot up and just see if we are dividing it up in the fairest and best possible way.
Chair: Say that again?
Dr Altmann: Are we dividing it amongst our citizens in the fairest and best possible way? We have not actually looked at that explicitly, either. But I will come back to this issue of contracting out, particularly with unfunded pension schemes, where there is—

Q41 Stella Creasy: Sorry to interrupt, but tax relief is also 2.7% of GDP on average, isn't it? That is quite a chunk. If we are going to talk about the big sums of money that we are spending and start looking at public service pensions, then tax relief is also an issue for further inquiry as well, isn't it?
Dr Altmann: Yes, you are very welcome to look at any of the stuff on my website that has looked at alternatives to the system of tax reliefs that we have.

Q42 Stella Creasy: But obviously, that also applies to private sector pensions, so when we talk about who is benefiting from the public sector purse—
Dr Altmann: Yes, absolutely. I would not dream of it not applying to private sector pensions. It is not

necessarily the same debate, but it is definitely a related debate.

Q43 Stella Creasy: Obviously, there have been changes to the state second pension, and that has affected people within the public service as well. I wonder whether you had made any analysis. Obviously, in the last10 to 15 years, people have not been paying into second state pensions in the public sector because of the changes to national insurance contributions, so that does also affect the people that we are talking about now, who might be affected by the changes you are talking about.
Dr Altmann: Sorry, I am not sure I understood you. People in the public sector are not paying for their state second pensions?

Q44 Stella Creasy: People weren't paying into the occupational pension schemes in the public sector, because of the changes that happened over the last 20 years.
Dr Altmann: The reality is that public sector workers are not paying for their S2P. That is what contracting out is all about. Public sector workers get a discount on their national insurance to reflect the fact that they are going to get their S2P replaced by their unfunded pension scheme. So they get S2P, under their scheme rules, from a different pension age from the rest of the country, and they haven't paid for it because of this system of contracting out.

Q45 Stella Creasy: No, what I am saying is, when we start looking at some of the changes that people are talking about, both of those facts need to be taken into account, don't they? Both the money we are paying into tax relief, but also the historical nature of the S2P system with public sector pay. Just to say, "Who is getting £6,000, and can we afford to give them £6,000?" doesn't really take into the round other factors that will affect their pensions and the income that they will have, when we are looking at what people from five, 10 years onwards would have.
Dr Altmann: I am not sure I understood your point. I am sorry. Can you try again?

Q46 Stella Creasy: Okay, I will try again. You are asking us to look at some quite radical ideas around how we might deal with the cost of public service pensions. I am saying that when we are looking at the issue of public service pensions, we also need to look at what people will be eligible for and some of the changes. We are not looking from ground zero, are we? We are not looking from year zero in terms of some of the schemes that people are currently members of. So, whether, for example, the change from Retail to Consumer Price Index will affect people who have also had other changes to their pensions in relatively recent terms, especially in terms of the second state pension, and whatever changes we might want to think about for tax relief on pensions. You have got to look at these things in the round when you are looking at the final amount that people would get. This is the point I am trying to make. To just look at one aspect of pensions policy is not to see it in the round.
Dr Altmann: Which aspect are you saying that I'm looking at on its own?
Stella Creasy: Because you are looking at rate at which employers make their contributions.
Chair: The employer contribution.
Dr Altmann: No, I am looking at everything. I am looking at the contributions made by the employees, and the employers, and the taxpayer. There are three parties here. You could argue that there are two and the employer contribution is just a taxpayer contribution by another name, but I am also looking at the employee contribution as well.

Q47 Nick Smith: Ms Altmann, I was interested in how you would pay for your suggested state pension of £140 a week. You said that two good ways of doing it would be to stop contracting out and the tax advantages to high rate taxpayers. How much do you think you could save, and who would be the chief losers?
Dr Altmann: The chief losers under a system of ending contracting out will be members of final salary schemes who are contracted out, who will have to move on to the right rate of national insurance that everyone else pays if they are not contracted out.

Q48 Chair: And the higher rate tax relief?
Dr Altmann: I think the higher rate tax relief is something that is part of a much wider debate on how we incentivise pension saving. At the moment it is a system to incentivise pensions savings, and what I would like to see, if possible—
Nick Smith: For people who have already got quite high pensions.
Dr Altmann:—is a redistribution of some of the very generous tax reliefs at the top to provide better incentives for basic rate taxpayers or lower earners, who, I think, one might argue, socially, need more incentive than they currently have. If you were trying to redistribute the costs of incentives for pensions, for me, it makes sense to look to increase the amount we incentivise low earners' pensions and take something down from those at the very top end, where you could argue, if you can afford to put £50,000 a year into a pension, you are not necessarily in need of a social incentive to save. But that is a somewhat separate argument. However, the cost of tax relief for pensions is around £35 billion per year. This is an enormous part of public spending. So the redistribution potential is significant. If we ended contracting out, one would save, perhaps £7 billion or £8 billion a year, which is still enough to pay a decent pension to our pensioners.

Q49 Nick Smith: So it would free up £42 billion?
Dr Altmann: If you got rid of them both, but I am not suggesting that. What I am suggesting is that we find a mechanism to give more incentives and better incentives to those at the lower end of the scale, who lose out a bit under the current system.

Q50 Stephen Barclay: This is really just to clarify something you said earlier. In terms of those getting better pension payments, am I correct in your figure that to go out in the market and buy a pension of £60,000—

Dr Altmann: £6,000.

Q51 Stephen Barclay: I know you said £6,000 for £250,000. So, in essence, £60,000 a year would be a £2.5 million pension pot, yes.
Dr Altmann: Yes, and I just don't think public sector workers understand the value.

Q52 Stephen Barclay: Sure, and so as part of these schemes where it has been reported that someone's cash equivalent value will deliver an annual pension of £60,000 a year, but they are reporting that as, say, a pot of £1 million, that is because of the Treasury—
Dr Altmann: It is not the reality.

Q53 Stephen Barclay: It is not the reality, and that is because of the discount that is being applied, which is not what you can get on the open market.
Dr Altmann: Correct, yes.
Chair: Okay, Thanks very much, indeed. Thank you for that.

Examination of Witnesses

Witnesses: **Sir Nicholas Macpherson** KCB, Permanent Secretary, **James Richardson**, Director, Public Spending, Public Services and Growth Directorate, HM Treasury and **Tim Sands**, NHS Pensions, Department of Health, gave evidence.

Q54 Chair: Can you just explain your system of contracting out, before we proceed? Do you know what people were contracted out of?
Sir Nicholas Macpherson: The concept of contracting out goes back to Barbara Castle's state earnings related pension scheme. You pay a lower rate of national insurance in exchange for not getting a pension through the earnings related pension scheme. So it has got a long history. So, for example, if you are in the public sector, you do not get a state second pension, you pay a slightly lower rate of national insurance, and you get all your pension through the pension scheme.

Q55 Chair: Right, and as a starter for 10, do you agree that if you stop people contracting out so they would have to pay more through their NI during their working life, you could raise the state pension to £140. Do you agree with those figures?
Sir Nicholas Macpherson: I do not immediately recognise them. My recollection is that if you abolish the contracting out rebate, that is worth something like £5 billion, isn't it, James? So that intuitively does not seem enough. There are about 10 million pensioners, so I do not think that £5 billion would go very far. Can you do the mental maths of what it would pay for, James?
James Richardson: I cannot work out whether it would be to £140, but I think it is useful to understand that the discount on national insurance is set actuarially to offset the value of the second pension forgone. So therefore, as it were, it would pay for the second pension for the people who are contracted out over time, but it would not pay for the whole population over time. It would pay for the people who are contracted out. Now, of course, you get the money immediately and the costs are downstream, so in the short term you are up on the calculation, as it were, and would be able to spread the money a bit more widely. But over time, that would unwind.
I think the other thing that may be of interest is that the reduced rate of national insurance is in two parts: the employee, themselves, pays a lower rate, but so does the employer, and that lower rate or wedge is slightly larger on the employer side than it is on the employee side. Of course, many of the employers are themselves public sector bodies, and so that cost would then fall on other parts of the public sector. Not all of it, of course, but quite a substantial element would fall on the health service, schools, and the Civil Service and so on. In that sense, it would be being made up from reduced budgets across the public sector.

Q56 Stella Creasy: Just out of interest, would it affect their national insurance entitlements to do that, because you would have a bunch of people who had not paid in contributions who were then being—
James Richardson: No, because it is a lower rate. It is not that you are in or out of the system; it is just that the rate is different.

Q57 Chair: What is your back of the envelope calculation?
Sir Nicholas Macpherson: I think it would buy you approximately £10 a week on the state pension, but don't hold me to that.

Q58 Chair: Right, thank you. That was a tidying up of the last one. If you want to drop us a note in the next week—we are getting very vigorous on our notes; we want them in a week—with a stronger analysis, that would be helpful when we think about that, if that is possible. But within a week please, so it does not hold us up. Okay, looking at the NAO Report along with the Report in March, it looks from the NAO Report that the 2007/08 changes are going to bring you in, over this 50-year stretch, £67 billion, or something like that, and a 14% reduction of the cost of what occupational pensions would otherwise have been and bring it down to a lower rate of GDP. Is that affordable? I am trying to get this idea of what is affordable, and how you think about affordability.
Sir Nicholas Macpherson: Well, I think there are two ways of approaching affordability. There is one approach that involves taking a whole stream of pension payments ever into the future, and then discounting them. You get some quite big sum, which always sounds quite scary, like £770 billion. That is quite useful and has a role, but the Treasury's preference is to look at pension payments as a

percentage of national income at any point in time. Certainly, if you look at the latest set of estimates, which I think are in the Hutton Review, you do get a sense that with regard to public sector pension payments—which I think are round about 1.9% of GDP—once you feed in the Government's subsequent decisions to link inflation uprating to the Consumer Price Index, once you take into account the current wages freeze and then take into account likely reductions in the public sector workforce, I think by 2060,the number is a figure of 1.4% compared with 1.9% now.

Q59 Mr Bacon: Sorry, 2000 and…?
Sir Nicholas Macpherson: 60.

Q60 Mr Bacon: Six zero?
Sir Nicholas Macpherson: Six zero.
Chair: It is always 50 years.

Q61 Mr Bacon: Hang on. This presumes you know what GDP is going to be in 2060, as well. I am really interested in knowing this, because I may still be alive then. I was born in 1962, so I will be waiting for my letter from the Queen, and I will only have 18 months to go. Can you tell us what the GDP will be, Sir Nick, in 2060? You must know because you have just told us an answer that relies on your knowing.
Sir Nicholas Macpherson: Yes, I have.
Mr Bacon: And I will be 18 months away from getting my letter from the King. It may still be the Queen, of course.
Sir Nicholas Macpherson: It is based on GDP going broadly in line, I think, with the Office for Budget Responsibility's current view of trend growth, which is somewhere in the region of 2.25%.

Q62 Mr Bacon: 2.5% per year?
Sir Nicholas Macpherson: 2.25%, I should think. Again, I can clarify that in the note.

Q63 Mr Bacon: For the next 51 years?
Sir Nicholas Macpherson: Yes.
Mr Bacon: This is terrific.
Sir Nicholas Macpherson: Actually, Mr Bacon, the Treasury occasionally gets a bit optimistic and convinces itself that the trend rate of growth is—
Mr Bacon: I have always thought of you as more of an Eeyore than a Tigger, Sir Nick.
Sir Nicholas Macpherson: I am. But interestingly, from time to time, Governments think that they have solved this issue of growth, and they raise their estimate of the trend rate of growth of GDP. Actually, if you go back to the war, you do not go far wrong if you assume GDP grows by 2.25% a year. There was a particularly bad period, I seem to remember, in the 1970s, but it generally averages out at 2.25%.

Q64 Chair: Can I just go back, because what you have said is, it goes down, right? We have taken all these measures and there are a few other measures that have been taken as well, and it goes down from 1.9% to 1.2%, I think you said.
Sir Nicholas Macpherson: 1.4%.

Q65 Chair: 1.4%. Now, why is that affordable? In what way do you judge affordability? I suppose I look at it as a percentage of public spending, really, rather than a percentage of GDP, because that makes more common sense to me. I am a bit kitchen-sinky about it, but it makes more sense to me. But why is that affordable?
Sir Nicholas Macpherson: That is a really good question. What, from first principles, is an affordable amount to spend on public service pensions? It is very difficult to answer. I suppose what you look at are two things. Is a trend moving away from you? I think that influenced some of the decisions taken by this Government and the previous Government on things like longevity.
And then there is another issue, which is about what society as a whole thinks is a reasonable amount to spend. I think that comes a bit back to something that Mr Johnson, I felt, was hinting at earlier, which is that there was a time when public service pensions were very much in line with good private sector practice. Over the last 15 years, there has been this extraordinary shift from final salary schemes, and employers in the private sector have basically taken the view that they can get a better return, in terms of recruitment and retention, by changing the balance a bit between pay now and pay later. The public sector stayed very much with the pay later model.
I guess the question is, if you are going to have reasonably generous pensions, there is an interesting issue about the balance between how much the employee should finance that pension, and how much the employer—or in the case of the public sector, effectively, the taxpayer—should foot the bill. Now, because of the change in longevity, when public sector pension schemes were originally set up, broadly, employees financed about half of the pension. Over the course of the last 30 years, there was this quite surprising increase in longevity, in the sense that it surprised the actuaries and it surprised pretty much everybody.
The most interesting fact that I have discovered in preparing for this Committee is that in 1841, if you reached the age of 60, you could expect to live to 74; by the early '70s, that figure had only increased to 78. The trick was to get to 60 in 1840, but once you got there, you lived to 74. By the early '70s it was 78, so there had only been a four-year increase. But since the early '70s, that figure has increased from 78 to 88. As a result of that, the employer has footed more and more of the cost of public service pensions—namely the taxpayer.
Coming back to your point of affordability, I think there is an issue that if the public sector is generally going to have more generous pensions, what is the right balance between the individual who is working in the public sector and the taxpayer? And that, in a sense, is one of the issues that the Hutton inquiry has looked into, and that, I think, successive Governments have wrestled with.

Q66 Chair: Okay, so what I take from that answer is that affordability is really defined, in a way, as perception of fairness?

Sir Nicholas Macpherson: I think there are two elements. Looking at the percentage of GDP is a good backstop. There are a whole lot of programmes that I think this Committee would look at in a similar way. Is our health spending as a percentage of GDP at 8% or 6%? Similarly, defence.

Chair: Well you would look at Europe.

Sir Nicholas Macpherson: Exactly, you can look at that. As I say, it is a good check, and if it was running away from us and getting up to 3% or 4%, or even 2%, I think we should all be getting extremely concerned. As I say, because of measures taken by the last Government and this Government, actually that is reasonably under control. So the next question, I think, is one—

Chair: Of the balance?

Sir Nicholas Macpherson: Yes.

Q67 Chair: And that is fairness?

Sir Nicholas Macpherson: Yes.

Q68 Chair: Okay, can I just ask you something? Everybody is challenging some of the assumptions you have made on your calculations. So they challenge your discount factor. We had a little discussion about that with Ros Altmann before you came, and you may want to comment on that. You have challenged the GDP growth rate, and I would actually challenge your assumption that the public sector workforce stays static over time. Maybe you would like to respond, because clearly, all of your calculations are based on these broad assumptions?

Sir Nicholas Macpherson: Those are all really important, and although I said that I am fairly confident that a figure of 2.25% trend growth will generally produce a sensible answer, I quite agree with Mr Bacon that one would want to do quite a lot of sensitivity analysis on it—similarly on longevity, and similarly on the size of the public sector workforce. Actually, I think one of the many good points, as ever, coming out of the NAO Report is that we need to develop that sensitivity analysis, and the Hutton inquiry will help us do that.

I think there is a special issue about the discount rate, which is a notoriously complicated subject. It is tempting to say, "Well, the gilt market is currently saying this. Because the Government can borrow over 10 years at this time and costing that amount, that is what should inform assessments." But, there are a whole lot of things that influence the gilt market at any point in time. For example, at the moment inflation is at a reasonably elevated level and the real rate of return in the gilt market is quite low. But that is because the gilt market is anticipating that inflation is going to fall. The gilt market basically has confidence in the Bank of England.

Q69 Mr Bacon: And the Bank of England certainly has confidence in the gilt market, because they have bought a quarter of all the gilts, haven't they?

Sir Nicholas Macpherson: Well, indeed. Guaranteed by the Treasury, I hasten to add. But my point is that, at any point in time, the gilt market will reflect a whole lot of factors: supply, demand or regulatory requirements. The fact that pension funds are required to hold so many gilts and the fact that the Bank of England has been active in the market, I think, it is fair to say, has probably distorted the yield in the gilt market. So I do not think one should be tempted into just focusing on short-term returns. You can look at the gilt market, but you might want to look at equities. Returns on equities recently have been quite good.

So, in looking at the discount rate, you have really got to take a long view. Now, the last time the Treasury did a major review of the discount rate was round about the turn of the century, and we got an answer of 3.5% real. With the passage of time, I think it is fair to say that that is beginning to look a bit on the high side. Hutton noted that it was probably on the high side—not totally silly, but just on the high side. As a result of that, the Government has started a review of the discount rate. A very impressive but complex Treasury document has been published, and I think the consultation, James, is set to end?

James Richardson: Tomorrow.

Sir Nicholas Macpherson: Tomorrow. So if you want to make representations, you have still got time. But the serious point is that this is being reviewed and it is right to review it every so often, but you should not get transfixed by market rates in the short run.

Q70 Mrs McGuire: Could I ask whether or not you were surprised to find out that over the period projected you were making the savings that you had anticipated? Did it come as a shock to you?

Sir Nicholas Macpherson: That we are making savings?

Mrs McGuire: Yes, over the projected period.

Sir Nicholas Macpherson: No, I am not wholly surprised. I think both the cap and share arrangements and the Government's decision to index public service pensions by the Consumer Price Index rather than the Retail Prices Index are quite meaty measures, which I would have expected would reduce the cost of pensions to a reasonable degree.

Q71 Mrs McGuire: The reason I ask is that it appears that there was not any structured monitoring of the progress and there did not appear to be a set of objectives that you could assess progress on? So, was it just instinct that said, "Yes, this is going to work"?

Sir Nicholas Macpherson: No. Loyal as ever, I have agreed the Report. In its own terms, the NAO's point is right, but I think perhaps the spirit of the observation is wrong. Why? Because the way the Treasury has always monitored pension spending is by making projections into the long term and then calculating the likely level of pension spending in relation to GDP. We do that every year. There are long-term fiscal projections. Those long-term fiscal projections have even more creditability now, because they are carried out by the independent Office for Budget Responsibility, and it is that that we focused on.

The paper is very much focusing on the set of measures that were introduced through the cap and share agreement, which was agreed with the trade unions in late 2005 and implemented in 2007. At that time, our objective was simply to recoup the money that was lost by agreeing with the trade unions that existing members would not have their age of retirement changed. We calculated in 2005 that that was approximately worth £13.5 billion. We needed to get that money back. So it influenced the policy and the way the Treasury drove that policy, but it was not fundamental to the cost of pensions. What was fundamental for us, in terms of the long-term effect of the cost of pensions, was that annual calculation, which is now done by the Office for Budget Responsibility.

Q72 Mrs McGuire: So, are you telling the Committee that the NAO did not quite understand how the Treasury was doing things?
Sir Nicholas Macpherson: Well, the NAO can speak for themselves.

Q73 Mrs McGuire: Well, you have challenged the methodology of the NAO.
Sir Nicholas Macpherson: Yes, I am challenging it because if you want to know what the cost of pensions is, you want to do these long-term projections and continue to look at them, and see whether they are moving upwards or downwards in the right area.
Keith Davies: What we meant by that point was that there is a programme of reforms here. I think in most circumstances we would expect them to be clearly stated objectives for that programme of reforms, with some numbers attached to them so that everyone can see clearly what the ambition is. We would expect to see some monitoring over time of performance against those, and that is what we perceived was lacking and that is the bottom line.
Sir Nicholas Macpherson: I think that is a fair criticism. We would always argue you should evaluate policies, and one of the challenges for us in the future is that there are now a number of changes that have been made to public service pensions. I think this Committee needs assurance that we are monitoring spending on public service pensions. We will be, and so on.

Q74 Mrs McGuire: So you will be able to give us a definitive report on the outcome of your monitoring at future points?
Sir Nicholas Macpherson: Yes. The Office for Budget Responsibility will publish a report each July, and the Government has already announced some changes. Following the Hutton Review, no doubt there will be further changes, and I think we will want to give you proper and accurate information on how much pensions are costing.

Q75 Mrs McGuire: One final question on this. Mr Sands, how are you monitoring the impact of the last set of changes on the NHS pension scheme?
Tim Sands: Right, the pension scheme changes are based on the valuation of the scheme. So for instance, the point that you were questioning about there: when we started, we had a situation where, in the NHS, the proposal was that people would move to 65 in 2013, 10 years after. It would have delivered very small changes in the short term, and we were facing a situation where, because of pay modernisation in the NHS, particularly the GP pay improvements and also the agenda for change scheme, we had significant extra costs, which would not have been addressed at all by the original measures.
The way that we both planned and monitored the spending is through the actuarial valuation of the scheme. We had identified that there was a pressure of 1.3% of pay, which would have fallen to the employer under the old arrangements. At any time, obviously, there is real pressure on NHS spending, and we were looking not to spend that money on increased employer contributions. The negotiation that we had and the cap and share being introduced meant that those costs were not actually met by the employer but met half by an increase in employee contributions and half by benefits changes, which reduced the cost. We had a formal agreement with the trade unions, which we negotiated, which sets out exactly how any increases in costs will be shared, and so that is the way we monitor it.
We were in the middle of the 2008 valuation when the current Government's changes, i.e. Hutton, came along and so we are currently suspended. But the process we had in place was that we looked at what the cost of providing those benefits would be going forward and any past service costs like longevity. We had an agreement about how those costs would be distributed, which was broadly, in the NHS scheme, that the employees would pick up the costs of living longer and being paid more and so on, and that the employer, through the Treasury, would pick up the financial risk within the scheme.
That is basically how we monitor it, and we have a governance group in the NHS pension scheme, in which employers and trade unions sit alongside each other, which makes recommendations to the Secretary of State; and the Secretary of State obviously then decides how to implement the valuation.

Q76 Stephen Barclay: Thank you. I just really wanted to clarify on the issue of the discount, following on from Dr Altmann's evidence. As I understand it, the average annual pension for a retired civil servant is around £7,000. Is that correct?
Sir Nicholas Macpherson: That sounds correct to me, yes.

Q77 Stephen Barclay: Yes. So, I was just looking at the Cabinet Office resource accounts, because the person who is the accounting officer for that scheme is Sir Gus O'Donnell. It says here that he will have, retiring at the age of 60, a personal pension of £100,000 to £105,000 a year, plus a lump sump of £305,000 to £310,000 a year. Yet, that is reported as a cash equivalent transfer value of £2.3 million. But if one follows Dr Altmann's figures, it suggests the real value, if one was to buy that on the market, would be more than £4 million. I was just wondering if you could clarify the numbers in that?
Sir Nicholas Macpherson: The estimates in resource accounts are, as you imply, based on actuarial calculations, and my presumption is that the Government actuary is using a discount rate consistent with the discount rate that we have been discussing, which is 3.5 real. As you say, if you used a lower discount rate, that would place a higher value on that

pension. The one point I would make is, do bear in mind that for future generations there is now a cap on your amount of tax privileged pension. So, the glory days enjoyed by the Cabinet Secretary and his predecessors will not apply to the likes of myself and Mr Richardson, because we will come up against a cap much before you got a pension of that level.

Q78 Stephen Barclay: Okay. What I am really trying to get at is the sense of urgency and whether, on the issues of affordability, too much of the money is being taken by those at the top, which is having a big impact on those on more modest salaries. If one looks at your own pension, this is currently reported as a cash equivalent value of more than £1 million. I think that is probably less.
Sir Nicholas Macpherson: Just.

Q79 Stephen Barclay: Just?
Sir Nicholas Macpherson: Just.

Q80 Stephen Barclay: Paying £55,000 to £60,000 a year, plus a lump sum of £165,000 to £170,000 a year when you retire. But again, if one follows Dr Altmann, that would be worth more than £2 million. I am just concerned about how affordable those sort of schemes are.
Sir Nicholas Macpherson: The fact is, you have mentioned what the average pension in payment is, and it is £7,000. So, on average, pensions paid out by public sector schemes are not dramatically different from those paid out elsewhere. I think you are quite right to raise the issue of the higher paid. One of the anomalies with final salary schemes is that the people who get promoted late on, or at least get big pay increases late on, get massive pension benefits.
Now, the good news is that the Civil Service has now moved to an average salary scheme. I think the Treasury's ambition, probably, at the time was that that average salary scheme should affect, albeit after a transition, all employees. Unfortunately, I it is a matter of public record that the Treasury failed to achieve its objective there. So those currently in the scheme were protected. So, for example, I remain in a final salary scheme, even though people currently joining the Treasury are joining average salary schemes.
Now, to take your example, if Gus O'Donnell or myself were in an average salary scheme, you might get a bigger pension at the end of it, but that would purely be a function of your salary. The effective contribution required to generate that pension would be the same whether you were high paid or low paid—James will correct me if I am wrong—and I think that is desirable.

Q81 Stephen Barclay: What I am really trying to get to the heart of is whether it has been accurately reported. We had evidence earlier that suggested that to purchase on the open market a pension paying over £100,000 a year, with the lump sum attached that applies to Sir Gus, would be over £4 million. You are reporting it as £2.3 million, which presumably then frees up money to spend on short-term things. I am trying to clarify whether your reporting is correct. Would you accept that to buy a pension of over £100,000 on the open market would cost in the region of £4 million?
Sir Nicholas Macpherson: On the basis of annuity rates at the present time, I think your estimate is probably broadly right.

Q82 Stephen Barclay: So that is a yes.
Sir Nicholas Macpherson: No it is not. It is not, because the Government takes all sorts of decisions using a rate of time preference, which is higher than that available in the market at the present time. I think yours is a perfectly good point, but the fact is that in making these assessments you do need to look beyond the current market rate, and the private sector would do exactly the same thing. If I was in a final salary at BP, they would be using the same sort of discount rate, and indeed the Inland Revenue rules that determine the taxation of pensions apply in the same way for the private sector as they do for the public sector.
James Richardson: I think it may also help to understand that it does not free up resources elsewhere in the public sector, because the public sector does not buy that pension pot. These are unfunded schemes.
Chair: No, it comes out of current spending.
James Richardson: What matters is the actual expenditure year on year of actual pensions.
Stephen Barclay: Sure, but you are reporting it.

Q83 Austin Mitchell: I appreciate in all this digging we are just trying to produce a headline for the *Daily Mail*. I wonder, in all the future projections you have been doing about costs, what the calculations are on the effect of reduced public sector pensions on the take-up of means-tested benefits. Have the calculations been made about that, and can you give us an estimate of the possible cost?
Sir Nicholas Macpherson: Well, it is certainly an important factor in determining pension policy, and James may want to comment on it.
James Richardson: Yes, I think two things here are relevant. One is that the changes that have been put through, both under the previous Government and under the current Government, do not change the value of the pension for most pensioners on the day they retire. The change to career average for the Civil Service does mean that those on lower earnings are likely to receive a somewhat higher pension and those on higher earnings a somewhat lower pension. So that will remove, potentially, some people from means-tested benefits who might otherwise have been in receipt of them. But the bulk of these changes in terms of increasing the pension age for new entrants, some changes to employee contributions whilst people are working, and the cap and share provisions affect either the money that you get when you are working or the age at which you retire, rather than having a big impact on the pension.

Q84 Chair: When you look at your pension changes, the impression one gets from the Report is that you do not necessarily look at the impact on means-tested benefits.
Sir Nicholas Macpherson: Yes, we do.

Chair: You do?
Sir Nicholas Macpherson: Yes. One of the objectives here is to give people a reasonable income in retirement, and I think most people would regard a reasonable income as floating you off means-tested benefits. A lot of the emphasis, both under the last Government and indeed in the Hutton Review, which the Government has endorsed, is actually trying to create a fairer pension system, although "fair" is always a difficult term, so that the so-called fat cats will pay a higher share—dealing with Mr Barclay's point about Gus O'Donnell.
Stephen Barclay: You can use that term for almost any civil servant.
Sir Nicholas Macpherson: And people on low incomes, if anything, will be levelled up slightly.

Q85 Austin Mitchell: So you are saying there will be no effect on the take-up of means-tested benefits?
James Richardson: I cannot guarantee there will be no effect. What I am saying is that the broad thrust of the policy, if anything, levels up the pensions for people on lower earnings, and therefore there is unlikely to be a significant negative effect. There may be a positive effect. We certainly take these factors into consideration. Obviously modelling all of these things perfectly for changes that take place 30, 40 years in the future is not an exact science.

Q86 Joseph Johnson: In some ways it seems to me that we have got the worst of all worlds for the taxpayer, because on the one hand we have got these public sector occupational pensions, which according to Ms Altmann's evidence, are 30% to 50% better than those on offer in the private sector. So, I am just parking that for a second. I know you said that you felt that they were comparable with those on offer elsewhere. Her evidence was very clearly that they were 30% to 50% better than those on offer elsewhere in the private sector. And then on the other hand, as I was also mentioning in our discussions with Ms Altmann, they are not appreciated by those who are receiving them to the extent that they should be, because of these twin discounts that are being applied to them that I mentioned: complexity and political risk. What changes would you like to make to our pension policy in this country so that it is more effective as a tool of recruitment and retention?
Sir Nicholas Macpherson: I am going to ask Tim to come in on the NHS in a minute, but, I recognise what you are saying. Just to clarify one thing, my understanding is that pensions paid to people in the public sector are broadly comparable with the pensions paid to those who get a pension in the private sector. Because a lot fewer people get a pension in the private sector, I think it is fair to say that the direction of Dr Altmann's estimates, although perhaps on the high side, is right. Public sector pension provision, on average, is more generous than the private sector.
One of the difficult things from a Treasury perspective over the years has been with regard to your earlier point. People are myopic and tend to value pay now versus pay later, so you do not get the same return in terms of retention. On the other hand, historically, the state had quite a paternalistic view of these things, and thought that it was in people's interest to have a reasonably generous pension, even though people did not really appreciate it, especially when they were young.
Getting the balance right is a challenge. The world has changed since the Civil Service I joined in the 1980s, partly because the private sector has recognised that people are myopic. Coming back to the fairness point, I think, probably, that the state should move a bit more in the direction of the private sector. But I think it would be a pity if it moved all the way to where the private sector is, simply because there is some benefit in pension provision and as Lord Hutton has said, and as the Government has therefore endorsed, we do not want to race to the bottom. Tim?
Tim Sands: The thing that I would add in relation to the NHS is that I think, in a sense, you are both right and wrong in looking at the NHS. We did a survey before we started the whole review as part of the review of the pensions that led to the agreement that was implemented in 2008. Recruitment and retention and the effect was a very, very strong element of what we were looking for in what we were proposing. We did a survey that showed that the vast majority of people who were members of the NHS pension scheme were very happy with it; however, I think it was four in 10 of them did not really understand what it was that they were going to get from it.
I think in public service pension schemes, and particularly with regard to the NHS scheme, we must hold our hands up that people were not getting annual benefit statements, so they had no idea of what the actual value of their pension on retirement was. That has actually reduced the cost of the pension in the NHS, because on average, people in the 60 scheme retire at 63, because their expectations of how much they would get in pension as they came close to retirement were not realised. They thought they were going to get a higher proportion.
What we have done as part of this is focus very hard on the recruitment and retention benefits for the NHS. In the NHS, there is quite a high turnover of staff in the first five years, but once they have got through the first five years, they do tend to stay. They emphasise that the pension scheme is a very important part of that. The employers side in the pension negotiations wanted to move to career average for the NHS for new starters; however, the trade unions very strongly argued that they did not want that, and because we had a financial envelope and we could deliver that financial envelope with the final salary pension, we kept that in the end.
What we are doing in the NHS at the moment is everyone is getting a choice as to whether they want to move to the 65 scheme, because for people who are working longer, it would be a better deal. Everyone will have got a pension statement by the end of this year, which sets out what the value of their benefits is. We going to build on that by giving annual benefits statements going straight on from there, and we are looking at whether we can make those into total reward statements, because we have the electronic staff record across NHS organisations, which provides pay information. So we are looking at whether we can give that, because I think it is absolutely vital that

people do understand the value of their benefit. In the review we were told things like people were moving for a couple of hundred pounds or so a year extra pay, when the value of their pension, obviously, was considerably more than that.

Q87 Chair: I am sorry I am pushing you on a bit; we have just got so much to go through. Can we ask you to look at the 12 March Report, which we have also got, at figure 10 on page 19? Have you got that one with you? It shows that the change in employer contribution to the NHS pension was a gobsmacking 436% in 10 years; miles different from all the other ones that were looked at, and perhaps you could give us an explanation of that?
Tim Sands: Sorry, this is the increase in the employer contribution?

Q88 Chair: Employer contribution, as a percentage increase, went up from £3 billion to £5 billion[1].
Tim Sands: There are two factors, I think, that are involved in that. One was that the NHS is the one area of the public services that had the biggest growth in numbers.

Q89 Chair: I do not believe that can explain that.
Tim Sands: No. I think the other factor, as I understand it, is the indexation changes to the contribution rate, which used to be paid direct by the Treasury; we had an increase in the contribution rate from 7% to 14%, so that doubled.
James Richardson: It's a change in assumptions essentially in the way the costs are split between the Treasury and the employer, both of whom, of course, ultimately are the taxpayer.
Sir Nicholas Macpherson: The column you should look at is total cost to the taxpayer, which is on the right hand side of the table, and it shows it going up from 2.04 to 2.9.

Q90 Chair: I see, so it was taking out of Treasury and putting it on to the NHS books?
Sir Nicholas Macpherson: Yes.

Q91 Chris Heaton-Harris: A quick one on the NHS, but then another one, if I may. Why does the NHS stick with the final salary scheme for most employees, and why are doctors and dentists treated differently?
Tim Sands: Right. It's general practitioners and dentists who are treated differently. They are in a career average scheme, and the reason is that they are self-employed people, and if you had them in a final salary scheme they could make up their own final salary, so you could not have self-employed people in a final salary scheme. Dentists and GPs have been in the NHS pension scheme since 1948 as self-employed people and they've always had that arrangement. I sort of alluded to why we ended up with final salary.
That was not the preferred choice of the management side; we were given a financial envelope and the requirement to move people to 65 for new entrants. Those were the requirements that we were given, and so within that we had the freedom to negotiate as to what sort of defined benefit pension we had. We put a strong proposal, for reasons of fairness mainly, because of the issues that Hutton subsequently raised about defined benefit pensions, that we should move to a career average scheme for the NHS for new starters.
The agreement has been that for the existing members we wouldn't be looking to change arrangements, and in the course of the discussions and negotiations we were unable to convince the trade union side that we should move to that arrangement. In return, they accepted that they would pick up the costs of that arrangement in terms of salary growth, and so on, which was obviously the big financial risk that we were concerned about, if that had gone ahead, and, of course, of people living longer. So, in effect, the agreement was that they would pay for the potential risk costs of a final salary pension over and above a career average pension.

Q92 Chris Heaton-Harris: The other question is, before we came to this meeting—I am playing with these Twitter things—I tweeted that we are talking about this subject today, and I think it is a nettle that needs to be grasped. People who are taxpayers who are not in the public sector do look at these pensions and think, crikey, they are gold-plated and out of line with private sector pensions. Some of the replies I got back are pretty unrepeatable, but are from people who would agree with that. So how do you change that perception, especially given the facts we have been given earlier about the cost of the public sector pensions?

Q93 Austin Mitchell: Change your audience.

Q94 Chris Heaton-Harris: They are my electors.
Sir Nicholas Macpherson: I think this is very difficult, because it's not so much that public sector pensions have become more generous; at least the terms do not look as if they have become more generous. The fact is they are more generous because of longevity. What has happened is that the private sector has seriously reduced provision. In the 1980s there were far more people in the private sector in final salary schemes.

Q95 Chris Heaton-Harris: But is that the private sector living within its means, and the public sector not?
Sir Nicholas Macpherson: It is motivated by a whole lot of things. I think with the benefit of hindsight Governments imposed too much regulation on private sector schemes, for very good reasons post-Maxwell—a lot more regulation. In the days of high inflation, you could always paper over the cracks by the fact that all your worker's salaries were going up a huge amount. And the Government also imposed requirements like uprating pensions in payment, and trying to change the balance between early leavers and stayers, whereas in the private sector actually the only people you care about, quite rightly in economic terms, are the stayers.

[1] The correct figure for employer contributins to the NHS pension sheme in 1999–2000 is £0.9 billion rather than £3 billion.

So there were a lot of reasons which made it less advantageous to the employer to provide pensions, and, again, with the benefit of hindsight—and I am one of the guilty men, because I was working on pensions in the 1980s—the Government got it slightly wrong. So the private sector has moved on, the public sector has broadly stayed where it is. I think the gold-plating is particularly obvious in relation to the high paid; I think there is someone in the public sector who has got a pension pot of £5 million, or at least a notional pension pot of £5 million. That appears, to some people, to be excessive.

Q96 Stephen Barclay: Could you provide us with a name of those in these schemes with pensions above £2 million?
Sir Nicholas Macpherson: I can provide you with name: I suspect the list would be very small in relation to these schemes. I was thinking of the wider public sector.

Q97 Mr Bacon: In the senior Civil Service can you easily get at separate figures for the pension costs of the senior Civil Service?
Sir Nicholas Macpherson: Well, consistent with the principle of transparency, they are published in our accounts and Mr Barclay read out my pension. Being a sensible person, I checked it this morning.

Q98 Mr Bacon: That is Department-by-Department, I am talking about across the piece for the 3,000 or so people in the senior Civil Service. Do you have a handle on the total pension cost for that tranche of people?
Sir Nicholas Macpherson: We do have a handle, because the Senior Salary Review Body is continually looking at these issues. Do I have a spreadsheet in the Treasury on which I can tick off Mr X, or Ms Y? I do not, but fortunately there are very good organisations like the Taxpayer's Alliance who go through everybody's resource accounts and then go out and denounces us regularly once a year for being idle fat cats.

Q99 Stephen Barclay: There is a serious point within this Sir Nicholas, particularly with, say, the NHS, because I was quite struck by the fact that management salary costs in PCTs went up by more than 25% in two years, between 2007 and 2009, which is a massive increase. Even in my own county of Cambridgeshire, last year certain executives in Cambridgeshire mental health trust got salary increases of 18% or 19%. Now, that has a material impact on the pensions that they are taking. I think it fuels the debate of gold-plated pensions, when many of those on modest incomes are not getting particularly favourable pensions.
Sir Nicholas Macpherson: I think this is an interesting point, and speaking as a civil servant I have some sympathy, because it is very striking that salaries in the wider public sector, for example local government, have gone up a lot more than those of civil servants. If you went and looked at what the Permanent Secretary of the Treasury was paid in the 1890s, he would have been paid a lot more than I am today, and I am paid less than my predecessor was paid six years ago.
I think you are right to focus on the dynamics of pay, and all of us will remember—I think it was in the 1980s—the Chief Executive or Chairman of British Telecom doubling his salary, for he was a he, in his final year of employment. It rather relates to your point about doctors; the people who benefit from final salary schemes should not be able to set their own pay, because if they do, you can rake off very large sums of money indeed.
I totally agree with you: you need to look at senior pay across the public sector, you need to look at how much it is moving, and if it is rising, what the pensions implications are. That is why one of the things the Treasury has been trying to do over the last 20 years is to factor pension costs in to budgets. For example, in National Health Service, as part of its Departmental expenditure limit, the employer's contribution is factored into that. So you cannot just pass the cost effectively on to the Treasury, but I think there is more we need to do on this.
Interestingly, Lord Hutton is doing this review on pensions. Will Hutton, I believe, is shortly going to publish a Government paper, a report to the Government on senior pay and how it relates to low pay, because I think it is a really important issue. I have got no brief at all for the high paid in the public sector on that point.

Q100 Matthew Hancock: On this point, I just want to push on the discount rate again. I understand the point that you made about needing to look through short-term fluctuations even in long-term bond prices, but Mr Richardson said that the change in the discount rate does not really have an impact, because it is an internal accounting measure. I do not want to misquote you, but you said something about an internal accounting measurement, but it does have an impact on how much a public sector employer is paying, relative to how much the Treasury is picking up, does it not? If the discount rate is wrong and the contribution therefore does not reflect the appropriate discount rate, then effectively a Department gets a higher or lower spending settlement.
James Richardson: It does indeed affect that, and that is why it is important, because it gets the incentives right, as Nick was saying, for Departments to take the full costs of employing people into account, and not simply pass those on to future taxpayers. So it is very important that we get the discount rate right, and that is why we are reviewing it at the moment, and, as we said earlier, there is a consultation that closes tomorrow. What we have said, in terms of the consultation and any change that follows from it, is that this would not be an excuse for the Treasury to then raid Departmental budgets on the back of a change in the discount rate. If that were to follow from the consultation, we would make adjustments, but it would make sure that the incentives were as good as we can get them, obviously, because this is an unfunded scheme. There is no precise, unarguable answer to the question of what the discount rate is, but getting it as good as we can will get those

incentives as good as we can, and that will make for better decision making.

Q101 Matthew Hancock: Yes, but it is not right to say that the discount rate does not have an impact. It does have an impact in terms of getting those incentives straight.
James Richardson: Exactly. But it does not have an impact on public expenditure.
Matthew Hancock: Right.
James Richardson: I mean, there are some at the margin, to be absolutely precise, because there are some private sector people who are in public sector schemes, most obviously GPs, but there are teachers in independent schools often in the teachers' pension scheme, and, of course, they make real contributions into the public sector. So there is some marginal kind of fiscal impact of it, but it is predominantly internalised within the public sector.
Amyas Morse: I just wanted to look ahead a little, please. As we were writing these Reports, we noticed there had really been no change in the pension regime since the 1970s, and now we have had quite a lot of change. Is it a bit optimistic to assume we have finished, would you say? As I look at it, the Chair referred earlier to the various key assumptions, and you acknowledged, Nick, that there are these key assumptions that drive a lot of things. It is good to hear the discount rate is being thought about. Looking at all of them, when you look at them you say, "Are they, in combination particularly conservatively positioned?"
I wonder whether we are not likely to see more tightening in all of the settings over the next while and therefore should we be looking at a further set of changes? Are we in the middle of this flow of change really, and we should be looking for more change over the next two or three years? It is a little difficult for me to believe we have arrived at the terminus already, but I would be curious to just get your steer on it, so we can be thinking about a forward work programme, and so forth.
Sir Nicholas Macpherson: Well, we have had quite a lot of change, and you have produced some very good reports on where we are. The Hutton Review is about to complete. I would hope that Government generally, and Departmental employers in particular, will then take some decisions for the long-term. There is a cost in continually changing pension schemes. Going back to transparency, it is important people understand what their pension is. One of the reasons there is a problem with the state second pension is that it has been reformed so many times, no one has got the first clue what they are entitled to.
So that is a factor, and so I would hope in the next two to three years, things will stabilise. Obviously, thereafter, if facts change like longevity, you would expect it to be reflected in contributions, but I hope we can achieve a reasonable stability in pension schemes, because there is a massive benefit in terms of certainty to the employee in having quite a simple message about what your pension is.
Amyas Morse: So that stability would be evidenced by a set of assumptions and bases for the scheme that you would regard as stable and able to stand the test of time, is that right?
Sir Nicholas Macpherson: Yes. Critical I think is ensuring that there are schemes across the public sector that are sustainable and fair.

Q102 Chair: And it is going to take you two or three years to get there?
Sir Nicholas Macpherson: James is in charge of this, what was your estimate?
James Richardson: Yes, I think the immediate point, of course, is that we have set up the Hutton Commission to have an absolutely comprehensive look at all of these questions, and we are awaiting the final report.

Q103 Chair: And he is reporting when?
James Richardson: We would expect it before the Budget, so pretty soon now.
Sir Nicholas Macpherson: A week or two; two weeks.

Q104 Chair: So there will be announcements then in the Budget of direction of travel?
James Richardson: We have to see what is in the report before we decide.

Q105 Chair: But one assumes you will work towards announcements in the Budget for direction of travel? Yes or no?
James Richardson: I am not going to pre-commit what the Chancellor is going to say in the Budget. We have not seen Will Hutton's final report. This is, if I might put it this way, at the independent end of independent reports.

Q106 Chair: I love civil servants; there will be announcements in the Budget.
James Richardson: However, the Government will obviously respond to the Hutton Report once we have it. What I would say is that, if there is to be major structural change, implementing that will no doubt take a number of years. There will need to be negotiation schemes, we will need to bring forward change, and it would probably be sensible to have some kind of transition period so that, for example, people who are currently close to retirement are not having to deal with a sudden change for the last year or so of their employment. So you would expect major structural changes, if that is what comes out of Will Hutton's final report, to take a number of years to come into effect.

Q107 Chair: Two to three years?
James Richardson: I have not seen what the report says.

Q108 Chair: Oh God!
James Richardson: But that is probably a reasonable timetable. You will probably need legislation for some of these changes as well.
Chair: This is because you have not seen it, we will need legislation.

Q109 Matthew Hancock: We were discussing, whilst you were sitting at the back, the need for transparency, but you're a big employer, so what do you think about the idea of making the contributions that are made towards pensions very transparent so that people who benefit from them actually understand that. I was once in an extremely generous public sector final salary scheme.
Sir Nicholas Macpherson: Very generous one, particularly for certain people in it.

Q110 Matthew Hancock: It was always made clear to us that this was extremely valuable, but if it had been on the payslip every month it would have been even more clear.
Sir Nicholas Macpherson: I will ask Tim to comment. The Treasury is a very small institution, but I totally agree with you. The Treasury does have a problem of retaining people. I know it is always asserted that the public sector is generously paid, but the sort of people who work in the Treasury generally can go and work in the City, and one of the things which we try and sell, in terms of being a good employer, is, first, the pension, secondly, being family friendly people who will have alternative working patterns, and so on. We do regularly tell people how much they are getting, and I think it is an important sell.
Tim Sands: I mentioned total reward statements and annual benefit statements. At the moment, for instance, the Civil Service annual benefit statements just say what pension you have earned, and what it will be in the future. We are looking for the NHS scheme to give some sort of idea of the capital value of it, whatever basis we would use for that, because it does have an important retentive effect if people can see just how much they are getting from their NHS employment.

Q111 Mrs McGuire: We are currently redefining, to a greater extent, what we mean by the public sector. I think part of Government policy is moving that way. We are now looking at NHS commissioning practices that will effectively be medical businesses. I do not mean that in a pejorative sense, but there will be free-standing, independent businesses run by general practitioners, and their staff will be employed by those new practices. Obviously, we have got the situation with free schools, and, again, independent organisations, and certainly that was the indication that we got from Oliver Letwin when he was in front of the Committee a few weeks ago. So these organisations, to a certain extent, I think will be almost hybrid; they will be delivering public services, but they will not necessarily be staffed by public servants in the traditional and understood way that perhaps we have grown up with. Can I ask specifically on the NHS whether or not any consideration has been given to what is going to happen to those people who work in those commissioning practices? I do know that prior to 1997 NHS staff, or staff in general practice, were not entitled to be part of the NHS scheme. Is there maybe a read across on to some of the other elements where the public services are being deconstructed, let me put it that way?
Tim Sands: Obviously the Bill is going through at the moment, and so anything I say is subject to legislation, but the position with regard to GP commissioning consortia is they are completely separate from the GP practices. They will be spending quite large sums of public money, they have a choice as to how many staff they employ, or whether they buy in services from elsewhere, but they will be statutory bodies. They have to be, to be accountable for public money, and they will have access to the NHS pension scheme. So the staff who work for GP commissioning consortia will be the same as PCT staff now in that sense, although they will be quite different organisations, I entirely accept. They have that statutory basis.

Q112 Chair: And foundation trusts?
Tim Sands: Foundation Trusts have access to the pension scheme. At the moment the rules in the NHS are that you have to be an employing authority to have full access to the pension scheme, which is PCTs, Foundation Trusts, Trusts, Special Health Authorities, and so on. GP practices also have that status; they have to be organised in a particular way in order to have access, only GPs can be partners, they cannot bring in private sector partners or anything. We also give access to voluntary organisations; hospices have access to the NHS pension scheme, and where staff are transferred, for instance, to a social enterprise, the transferring staff—if it's a voluntary organisation, not for profit—have access to the pension scheme. The big issue that is raised with us continually is that private sector organisations currently have to give comparable pensions when staff are transferred out of the public sector, but they cannot have access to the NHS pension scheme under the current policy, and so they have to provide it. I think that is what Dr Altmann was referring to when she was talking about the expense of providing pensions, and her 30% to 50% figure.

Q113 Mrs McGuire: Is the situation being looked at in terms of education, and the fact that we are now on the road to establishing free schools which will be free-standing in terms of the wider education authority?
Sir Nicholas Macpherson: I think we would be looking at pensions in all these reform cases. The Government has also announced that it is launching a consultation on the fair deal policy, which Lord Hutton noted can create a barrier to the plurality of public service provision. You will recall the fair deal policy was agreed with the trade unions early in the century.

Q114 Mrs McGuire: This century or early last century? Some time in the last 50 years, right?
Sir Nicholas Macpherson: Yes, some time—I try to remember when it was—and, as a result of that consultation, I think there will be a report on the way forward in the summer of this year, because there is this issue; if you do contract out something in an innovative way, if you saddle the provider with public sector style pensions, they have to carry quite a bit risk, and so there is a balance to be struck in that area.

Q115 Mrs McGuire: I notice the word you used was "saddle" there, which perhaps is a value-laden word.
Sir Nicholas Macpherson: I make no value judgments in these cases, I am just an official.

Q116 Nick Smith: There is great variation in employee contributions at the moment. Teachers put in most, the armed services, some would say for good reason, do not pay anything. Do you expect employee contributions to converge over time, or do you think, given changes in public sector structures that we are hinting at at the moment, that the variations will continue?
Sir Nicholas Macpherson: Some of these things reflect history; for example, when I joined the Civil Service I was told the reason I was not paying a contribution was that all Civil Service salaries were reduced across the board to allow for notional contributions. I do not think the Civil Service, as an employer, makes that point quite so much these days, but that was the history of why civil servants historically did not pay very much. I would expect to see a bit more convergence, because fairness, both within schemes and across schemes, is something that people tend to regard as a priority. The Government has been clear on the armed forces that it is going to follow Lord Hutton's recommendation not to introduce contributions, so you could see increasing divergence between the armed forces and other schemes, which could have quite interesting effects in terms of the choice of who you employ in the Ministry of Defence, but I am not close to it.

Q117 Chair: Is it the MoD as well?
Sir Nicholas Macpherson: No, it is just the armed forces, but I do not know what happens, James, if you are a member of the armed forces who fills a Civil Service post in MoD.
James Richardson: You would still be in the armed forces scheme if you were in the armed forces.
Chair: Lucky you.
James Richardson: If you were the Head of Procurement, or whatever, but you were a General, you would be in the armed forces scheme.
Sir Nicholas Macpherson: We need to be careful about perverse incentives, but the Government is very clear that soldiers are not going to pay contributions. Everywhere else I would expect to see more convergence.

Q118 Nick Smith: We did talk about a change to pensions per week for the population. I think the Government has got an ambition of £120 a week at the moment, which seems quite ambitious, and we heard earlier on evidence from Ms Altmann that you would have to do some quite chunky things to pay for that. Given this Government's ambition—I think it is £120, it might be £130 per week—do you think that is achievable very easily?
Sir Nicholas Macpherson: James, as well as being in charge of pensions, is in charge of public spending, so he is best placed to comment on this.
James Richardson: It is very clear that at the moment the public finances are under a great deal of pressure, so finding additional funding for anything is quite difficult, but within the Spending Review Settlement we have made the basic state pension a priority. The Government has introduced the triple guarantee and that does mean that expenditure on the basis state pension is one of a few items that is rising at the moment. I am afraid I do not have the figures that you have provided in my head, so I do not want to comment precisely on those, but this is a priority area in public expenditure, and that is very clear from the spending review settlement. Additional generosity above and beyond what has already been announced would have to be funded from somewhere else, and that is obviously going to be quite difficult at the moment.

Q119 Austin Mitchell: I just wondered, did the calculation of pensions, benefits and payments play any part in Sir Nicholas's calculations when he left Peat Marwick Mitchell and came to join the true faith?
Sir Nicholas Macpherson: I took a wage cut, I can remember that. I think I was 26 years old at the time, so I was as myopic as most of the workforce, and pensions played no role at all. Indeed, in my first year in the Treasury I was not even in the pension scheme, so I've always been a bit resentful that I have not got as many years as I should have.

Q120 Mr Bacon: Is that because you did not fill the form in in time?
Sir Nicholas Macpherson: No, it is because I was employed as what was known as a casual employee; you were allowed to be employed for a year as a casual employee, which meant I did not have to go through any process, but it meant I got no pension.

Q121 Mr Bacon: Did you ever go through a process afterwards?
Sir Nicholas Macpherson: You will be relieved to hear I did.

Q122 Austin Mitchell: This balance has become such a political football between the private sector and the public sector pensions; the Daily Mail has made a career of hyping up public sector pensions. A lot of the problem is surely caused by the fact that the private sector pensions buggered themselves by taking long pension holidays and shoving the money into profit? Is that not the cause of a lot the difference?
Sir Nicholas Macpherson: As I said earlier, I think private sector employees have seen it as quite a good way of cutting costs without upsetting their workforce too much, because their workforce do not attach a very high weight to it. Successive Governments—and this goes back way back—have not done themselves any favours either by encouraging, for example, pension schemes to run down their surpluses, and also by changing rules which just make it more burdensome to run a pension scheme. I think there are a number of factors at work.

Q123 Chair: I just wanted to cover one area which I think we haven't covered, and then we are almost at the end. One of your key savings is your cost sharing and capping scheme? Nothing has happened, no

actuarial assessments since ’06, ’07, ’08. Why? When are you starting with all that lot?
James Richardson: The assumption was that cap and share savings would start to come in from 2012/13 and that valuations would be taking place now.

Q124 Chair: But you should be doing a valuation every couple of years. That is what most people do. Every three years.
James Richardson: We would routinely do them every three to four years. Because there are so many changes going on at the moment and we are still reviewing, for example, the discount rate, which is a critical factor in all of this, we have put some of those valuations on hold at the moment because it would not be good value for money to spend money on doing them and then have to redo them in a few months’ time if the Government changes the discount rate or if things that come out of the Hutton Report require further changes. So there has been a bit of a delay in those valuations, but I think there is a good reason why we have put them on hold.

Q125 Chair: Are you going to wait now until post-Hutton and post-legislation to do evaluation to bring in the cap and share?
James Richardson: I think it would be sensible to wait until there is a change of view on the discount rate.

Q126 Chair: Which is by when?
James Richardson: The consultation closes tomorrow, so we will obviously have to see what we get in, but I would expect the Government to respond pretty shortly thereafter. It is certainly not going to take a number of years. You then probably do want to do those valuations. I do not know precisely what Lord Hutton will recommend, but I imagine that that is a more long-term structural set of changes that probably would not justify waiting until all that had happened before doing a valuation.

Q127 Chair: So your intent is to have a valuation and to implement the sharing and capping in 11/12? 12/13?
James Richardson: As I say, the assumption is that most of this will take place in 12/13. I think that is probably still a perfectly sensible assumption. It also overlaps, of course, with the change in the employee contributions that starts in 12/13.

Q128 Chair: The only thing I would say is in this Report, somewhere—I have not picked it up—it says if everything goes wrong and the valuation demonstrates this, and you put it all on the employee contribution, it could be a 70% increase in employee contribution. That is gobsmackingly huge.
James Richardson: Sorry, where is that figure?
Chair: You tell me, Keith.
Keith Davis: It is figure 12, page 29.
James Richardson: Of which of the two Reports?
Keith Davis: The most recent.
James Richardson: Yes, now I understand the figure that you are looking at. That, as it were, assumes that employees chose to take the increase.

Q129 Chair: No, I understand all that. Actually, it is worse. If you are an employee, what that suggests is if you want to retain your same pension benefit—Let me start this again. What worries me is you have not done a valuation since—when was the last valuation?
James Richardson: They vary in the different schemes. Tim can probably tell us when the last one was in the health scheme.

Q130 Chair: When was it?
Tim Sands: I can tell you in our scheme.
Chair: No, I know you have obviously from the evidence given more.
Tim Sands: 04 was implemented in 08 and we were in the process of doing the 08 valuation.

Q131 Chair: And the rest?
James Richardson: It is similar timing, but I do not have the precise dates.

Q132 Chair: So 04 might have been the last one?
James Richardson: Around those times, yes.

Q133 Chair: So by the time you are implementing this, you are eight years on and if you want to retain the same pension benefit, it could well be that you are going to be looking at 70% increases in employee contribution. That is gobsmacking.
James Richardson: Other changes, of course, will also have taken place in that. As we have said, the CPI change, for example, is relevant here.

Q134 Chair: But the CPI knocks your occupational pension by 15%.
Stella Creasy: Yes, does that not mean you might end up paying more?
James Richardson: But that will be taken into account in the valuations. That affects the size of the valuation. So all I am saying is not all the changes across the valuation are in one direction. It is not automatically the case that valuations push up the costs and as the NAO report says a number of times, there is a great uncertainty about these longevity projections that drive all these curves. This has been the great issue in pensions over the last 30 years—longevity predictions have been very, very hard to get right. Systematically they have been wrong and therefore, assessing what changes will happen in the future is very difficult in this area. What cap and share does is insulate the taxpayer against those shocks.

Q135 Chair: We understand what it does. Rather than having that sort of an answer, the observation I would make to you is that in a period when there are a whole lot of changes that make it tougher for the average person working in the public sector—let’s forget about the top ones—who gets on average £7,000, they have the CPI; they have all the things going against them and your failure to do an evaluation and therefore implement the cap and share for such a long period of time could have a very bad effect on those individuals, either in terms of their contribution or in terms of their pension. It seems to me that that is not a good thing to do.

James Richardson: I am sorry, but I do not think that is right. The change in the end is the same change, whether you do it in two valuations or one valuation. Cap and share does provide—and the graph essentially shows this—a mechanism that allows the people affected to decide whether to take that, which is in fact the impact of a greater value to the pension. It is not a loss; it is a gain that they then pay for in terms of longer life expectancy.

Q136 Chair: Hang on a minute. But if they have got to pay more or take less because the valuation shows the cost to the public purse is greater than it would otherwise have been, it is better that they do that gradually than in one lump.
James Richardson: That was exactly the point that I was coming to, that cap and share precisely provides people with the ability to take that as a choice between costs now and costs in the future. What this does is represent the extremes of that choice and indeed a position in the middle.

Q137 Stella Creasy: You are asking them to make a pretty stark choice, aren't you, between a substantial increase now or a substantial loss later? It is not gradual increase now. You might know that you have got a choice in front of you, but it is not a great choice to be faced with, is it?
Chair: Quite. And it is better you face that every three years rather than every eight or nine.
James Richardson: It is a consequence of a real increase in the value of the pension. It is a consequence of the fact that you are living longer and getting more pension.

Q138 Chair: That is not the point. I do not think you get the point. If things have changed for me as an individual because of longevity and therefore the cost to the public purse and therefore either I have got to pay more to get the same or I have got to decide I am going to get less, I want to know that every two or three years. I do not want, because you have failed to do it, to be told that every eight or nine years, because the impact of the decision after eight years is going to be greater than the impact every two or three. I think it is an irresponsible way to treat public servants.
James Richardson: As I say, had we gone ahead and done the valuations at a time when a number of factors were changing, we would simply have had to have redone them immediately afterwards anyway.

Q139 Chair: I do not think you get the point on the impact on individuals.
James Richardson: I do understand the point.
Sir Nicholas Macpherson: I would make two points. The delay has not been seven or eight years; as a result of what is going on, the valuation might may be delayed by, say, a couple of years. But the other point is that the whole point about actuarial valuations is to spread the cost, or indeed the benefit, over a long period. Things with pensions move very slowly, so although you can come up with quite dramatic charts, I do not think it will feel quite as terrible as you set out.
Chair: Wait and see.

Q140 Matthew Hancock: I do not understand the cap and share, so can I ask in figure 12, when people make the choice, they do not make the binary choice between the dark green line and the brown line, do they? Do they have the option to have a range somewhere in between?
James Richardson: Exactly. The green line represents the previous Government's estimate of the choice that people would make.
Matthew Hancock: On average?
James Richardson: Yes.

Q141 Matthew Hancock: But some people could go higher than that; some people lower than that?
James Richardson: The decisions are taken scheme by scheme, so they are not taken individual by individual.

Q142 Matthew Hancock: And that means that if there is a longer delay in between the valuations and therefore the jump in future cost is bigger, an employee could choose to go somewhere else on this chart in order to mitigate the size of the change that is being made.
James Richardson: Yes. That was the point I was trying to make; you have made it must better than I. I am afraid I was completely failing, but that was the point I was trying to make.
Amyas Morse: I think those comments are quite fair. On the other hand—not to be critical, because I do not intend to be—it is quite reasonable to point out that if you are an individual who is told, "You are getting more for your pension", you say, "Why". "Because your actuarial life expectancy has gone up a couple of years". You say, "Okay, great. It still does not mean that my income goes up; what it just means is I might be around a bit longer to collect it". So it is not going to feel all that comfortable, is it? You can understand that.
James Richardson: It beats dying.
Tim Sands: We made that argument very clearly in the last round and it was accepted by the trade unions. I think you are probably right that individual employees do not understand that, but we actually had a delay with the last round, because it was going to be implemented earlier and then there was the Public Service Forum agreement and it took longer. The way it worked the last time round was that we were picking up longevity and paying modernisation costs and we had to pick up an extra year or so compared with when we would have done it and they then spread forward over 15 years. So everyone is paying for those, but the 15-year spreading means that the impact of delaying the valuation by a year or two is not quite as big a hit and that has worked okay. We were in quite an advanced stage of the valuation, so the moment when all these other assumptions that James has been referring to are clear, then we will be able to move fairly quickly.

Q143 Jackie Doyle-Price: This actually follows on quite nicely. We are talking about an overall shift towards employees meeting the costs of their pension provision and although we get excited about the very high salaries at the top, ultimately a lot of public sector workers are not people enjoying high salaries. So if we are moving towards a system where they are going to be expected to cough up 10% of their salary, which is not unreasonable given the longevity risk, to what extent have you made an assessment as to whether people will just vote with their feet and opt out?

James Richardson: We have looked at this in terms of the specific measure that the Government has announced in terms of increasing the employee contributions. It is a difficult thing to assess, because there is not a huge evidence base out there, but the assessment that we have made is that there would be some element of opt-out and we have estimated that at about one percentage point of workforce costs within the schemes. That has been scrutinised by the independent Office for Budget Responsibility and they have accepted that. Now in fairness, they point to the uncertainty around that and I would highlight it to the Committee; this is a difficult thing to assess. But I would say several things that I think are relevant here. One is that for everybody in the public sector schemes, the employer contributions are a very substantial increase in their basic salary; roughly speaking 15% of salary on the current discount rate. If you think the discount rate should be different, you get these larger numbers, as you heard earlier. But on the current discount rate, you are getting about 15% of salary on top of what you get by being in the pension scheme. So that is what you give up if you opt out. That is over and above the value that you get from your own contributions. So you are giving up a lot, which is not a tremendously rational thing to do if you can afford it. Now I fully accept that some people will be cash constrained at the point when you put in the increase and those are the people that we worry about most. Of course, some of those people have already opted out and a lot of people who are on low pay or are only going to be in the scheme for a year or two may already have opted out. They cannot opt out twice. We are planning to bring those increases in over time so they are introduced in three stages and to make them progressive by income, because clearly it is the people on the lowest incomes who are most at risk of being cash constrained and therefore opting out. I think all of those things will quite heavily mitigate those risks. We cannot, unfortunately, completely eliminate them, but we are doing what we can and we are discussing these issues as well with the relevant trade unions, who are very focused on this. In terms of the loss to the financial position, it is the case that most of the contributions come from people higher up the income scale, because the opt-out that we have at the moment is lower down and because they are paid more and so the contributions are worth more. But obviously we do not want people to opt out so we will try to minimise that.

Q144 Jackie Doyle-Price: We can all completely understand that it is in their best interests to stay in there, but we have all agreed that people are very myopic and we are talking about monitoring people's behaviour. By your own answer just then, people have already opted out at the lower end of the income scale, given the less generous levels of contribution. At the same time, you have got the state in here with means-tested benefits, so people will take an element of risk, particularly if they have got other lifestyle issues, and ultimately the taxpayer is going to pick it up one way or the other. So to what extent are you offsetting that calculation with the fact that the taxpayer is going to pay one way or another? Is it a more efficient way to maintain that level of contribution?

James Richardson: Because the change in contributions does not affect the pension that you get when you retire, the calculation about whether the state is going to pick it up anyway through means-tested benefit is not affected by that. So if I think it is not worth me being in this pension scheme because I can get the Pension Credit, I think that today and I will already have opted out. The change in employer contributions does not change that calculation for anybody. So although it is an important point in policy making more generally and one that we do take a lot of account of, because we have not changed the pension through these changes, it is not relevant to this particular issue.

Q145 Chair: It is relevant in the round, because you must look at these things in the round.

James Richardson: Indeed it is important and we do look at it. What I am saying is that your point that if we put up contributions, people will opt out because they can get the Pension Credit anyway, has been made to us by a lot of people. What I am saying is if they can get the Pension Credit anyway and they are smart enough to work that out as their reason for opting out, they have already opted out. They cannot opt out twice.

Q146 Stella Creasy: So what is the saving to the public purse?

James Richardson: If they have already opted out, they are not in our calculations.

Q147 Stella Creasy: But if this increases the numbers of people opting out, we know that half of households are already struggling to make it to the end of the month on what they are being paid at the moment and then you ask them to pay an increase in their pension contribution and they go, "We just simply cannot afford it right now so we will opt out now and worry about it later", what is the saving to the public purse of this scheme?

James Richardson: The savings have been calculated on the assumption that we do lose some of the benefits.

Q148 Stella Creasy: 1%?

James Richardson: 1% of workforce cost through opt-out.

Q149 Stella Creasy: So just 1% of the workforce that is currently in the pension scheme at the moment you think would then opt out on your model?

James Richardson: 1% of the cost, as I say. There is a really important consideration here, which is because some people have already opted out and because inevitably the people who are paid more contribute more, most of the money that is paid in employee contributions is paid in by people further up the income scale and therefore, from a purely fiscal perspective—I am not discussing the social policy implications here—there is relatively little risk from those people impacting on the fiscal numbers. From a social perspective obviously it is really important that we make these changes progressive so as to avoid those kinds of issues.

Q150 Stella Creasy: From a Treasury perspective, you are still going to have to find the money to pay the Pension Credit if people are not paying into a pension scheme that they can then realise when they are older, aren't you?

James Richardson: As I said, the calculation of whether you opt out for that reason is not affected by the rise in the employee contribution. If I am going to opt out because I am better off on the pension credit, I am going to do it anyway.

Q151 Chris Heaton-Harris: If it is 1% of the costs, what percentage of the workforce is it?

James Richardson: Well we have not made an estimate on that, because we have not worked out the precise progressivity of the scheme, which is one of the things that, as I say, we are discussing at the moment with the trade unions. Once we have that, we will then have to make a new and more detailed estimate of opt out. Hopefully that will be a lower figure, because if we can protect the people who are most at risk of opting out, then the opt out will fall.

Chair: Thank you. I am going to draw it to a close, because I think people have got to go to other things, but thank you very much for very full and helpful evidence.

Written evidence from HM Treasury

PAC Hearing on 2 March 2011

At the PAC hearing on Wednesday 2 March on Public Service Pensions, I promised to provide you with notes explaining the following:

(i) Contracting out, and increasing the basic state pension;

(ii) Senior civil service pensions; and

(iii) Long-term GDP growth projections.

(i) *Contracting out, and increasing the basic state pension*

The State Pension has two components:

- The basic State Pension is a contributory pension—the amount an individual receives depends on the number of qualifying National Insurance years they have. A full basic State Pension is currently £97.65; and
- The State Second Pension is the earnings-related State Pension paid on top of the basic State Pension.

Individuals can choose to "contract out" of the State Second Pension. In return for not accruing rights to the State Second Pension in later life, an individual and their employer both receive a National Insurance rebate. From April 2012, those in defined contribution pension schemes will no longer be able to contract out. This change has already been included in the public finance forecasts.

The Committee discussed by how much the basic State Pension could increase if contracting out were to be abolished and the money recycled into the basic State Pension. The following analysis is based on the published cost of the contracting out rebate calculated using the current rebate levels.[1]

The contracting out rebate (given current rebate levels) is forecast to cost £6.8 billion in 2012–13. And 12.7 million individuals are forecast to receive a basic State Pension in 2012–13. This implies that ending contracting out could fund circa £10 a week rise for each basic State Pension recipient.

However, not all basic State Pension recipients receive a full basic State Pension. Further, the increase in basic State Pension could reduce the amount of income-related benefits some pensioners receive. If these effects were taken into account, ending contracting out in 2012–13 could increase a full basic State Pension by circa £15 a week.

While this change would be funded in 2012–13, there would be a net Exchequer cost over time:

- The number of basic State Pension recipients is increasing, and this additional basic State Pension would increase by the triple guarantee (as the basic State Pension rises by the highest of earnings, prices, or 2.5%). However, the cost of the rebate in cash terms rises more slowly. This could lead to an unfunded cost of circa £1 billion in 2016; and

[1] In February 2011, the Government announced that the rebate on earnings will be reduced from April 2012. This change has not yet been included in the published public finance forecast.

— Those individuals who are no longer contracted out will now accrue rights to the State Second Pension. Although these costs build more slowly (for example circa £100 million in 2018–19), there would be a significant increase in spending in the long term. Abolishing contracting out and increasing the basic State Pension represents an intergenerational transfer from working age people today to current pensioners.

(ii) *Senior civil service pensions*

Individual employers' Remuneration Reports (in Departmental Resource Accounts) include details of the pension benefits and Cash Equivalent Transfer Values (CETVs) of each of the members of the department's senior management team. These are available online on an employer by employer basis, but are not collated centrally.

However as an example, the following central departments had scheme members with CETVs near or above £2 million as of 31 March 2010:

Department	*Name*	*£ million*
Cabinet Office	Sir Gus O'Donnell	2.322
	Stephen Laws	2.401
Foreign and Commonwealth Office	Peter Ricketts	1.812
Home Office	Sir David Normington	1.988
	Peter Makeham	1.916
Ministry of Justice	Phil Wheatley	1.891
HMRC and Treasury	None	

Background to CETVs

The Cash Equivalent Transfer Value (CETV) is the capital value of an individual's pension and is calculated using guidance from the Scheme Actuary. It is an assessment of what it costs the scheme to provide the pension benefits. MyCSP, who are the Civil Service scheme's administrator, provide CETVs as of 31 March each year.

(iii) *Long-term GDP growth projections*

The OBR published its Economic and Fiscal Outlook in November 2010, in which it projected real economic growth of 2.2% per year on average, between 2016 and 2050. This was based on assumptions about growth in productivity (output per head), the population and employment.

Longer term growth rates will be updated annually in the fiscal sustainability report due to be published in the summer.

9 March 2011

ISBN 978-0-215-55976-0

PEFC/16-33-622

Printed in the United Kingdom by The Stationery Office Limited
05/2011 010646 19585

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**CASTLE CHAMBERS, LIVERPOOL REFURBISHMENT FLOOR 6**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 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 to the 6th floor in Castle Chambers, Liverpool which is owned by MPF as part of the direct property investment portfolio.

1.2 The tendering exercise was conducted on behalf of MPF by CB Richard Ellis (CBRE).

2.0 **RECOMMENDATION**

2.1 That Members accept the second lowest tender submitted by Denton Associates for refurbishment work at Castle Chambers.

3.0 REASONS FOR RECOMMENDATION

3.1 These are set out in the exempt appendix.

3.2 A tender for the works was carried out by CB Richard Ellis in preparation for proceeding with the refurbishment work.

4.0 BACKGROUND AND KEY ISSUES

4.1 Heads of Terms for a new 10 year lease have been agreed with the proposed tenant whose business has merged with another firm and who is looking to consolidate their existing office space with the intention to relocating to Castle Chambers as soon as possible.

4.2 The office suite extends to approximately 4,464 sq. ft. and is currently unoccupied.

4.3 The works to be carried out broadly consist of removing asbestos, stripping out existing layout and installing new partitioning, replacing ceilings, replacing windows with doors and redecoration throughout including the balcony.

4.4 It was agreed as part of the negotiations that MPF would refurbish the office suite to category A standard whilst the proposed tenant would be responsible for the category B fit out.

5.0 RELEVANT RISKS

5.1 Due to the significant level of vacant office space in Liverpool City Centre, MPF and CBRE consider that it is important at this time to focus on minimising the delay before completion of the refurbishment works.

5.2 The refurbishment work may be deferred should the potential tenant choose not to proceed with the lease.

6.0 OTHER OPTIONS CONSIDERED

6.1 These are set out in the appendix.

7.0 CONSULTATION

7.1 None arising from this report

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The basic element of refurbishment costs should be recovered from the last occupiers.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/121/11

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APPENDICES

None

REFERENCE MATERIAL

Tender Analysis Report from CB Richard Ellis:

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
None	

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