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Pensions Committee

Date:	**Monday, 21 November 2011**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

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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 19 September, 2011.

3. **INVESTMENT MONITORING WORKING PARTY MINUTES 12 OCTOBER 2011 (Pages 9 - 12)**

4. **LGPS UPDATE (Pages 13 - 48)**

5. **SECURITIES LENDING (Pages 49 - 60)**

6. **INVESTMENT MONITORING WORKING PARTY OPERATION (Pages 61 - 64)**

7. **ANNUAL GOVERNANCE REPORT (Pages 65 - 94)**

8. **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.

9. IMWP MINUTES APPENDIX (Pages 95 - 98)

10. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

PENSIONS COMMITTEE

Monday, 19 September 2011

Present:	Councillor	G Watt (Chair)	
	Councillors	G Davies P Doughty M Hornby AER Jones A Sykes (dep for Cllr P Johnson) A Brighouse (dep for Cllllr Tom Harney)	AR McLachlan C Povall H Smith
	Councillors	N Keats, Knowsley Council D McIvor, Sefton Council Mr P McCarthy, (NonDistrict Council Employers)	
In attendance:	Mr P Goodwin UNISON	Mr P Wiggins UNISON	
Apologies	Councillors	J Hanson L McGuire T Harney P Johnson	

31 **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 George Davies declared a personal interest in Item 15 on the agenda - Academies (Minute No 46 refers) by virtue of being a Governor of two Academies.

Councillor D McIvor declared a personal interest in Item 17 on the agenda –Taylor Shaw (Minute No 48 refers) by virtue of being a Member of Sefton Council.

Councillor Alan Brighouse declared a personal interest in Item 15 on the agenda – Academies (Minute No 46 refers) by virtue of being a Governor on an Academy and also a personal interest in general by virtue of his wife being a member of the Pension Fund.

Councillor N Keats declared a personal interest in Item 16 on the agenda – Admission Body Application – Mack Trading (Minute No 47 refers) by virtue of being a member of Knowsley Council.

32 **MINUTES**

The Director of Law, HR and Asset Management submitted the minutes of the meeting held on 27 June, 2011.

Resolved – That the minutes be received.

33 **ORDER OF BUSINESS**

The Chair agreed to vary the order of business.

34 **ACCOUNTS 2010-11**

A report of the Director of Finance presented members with the audited Statement of Accounts of Merseyside Pension Fund 2010/2011 (subject to outstanding matters) and responded to the Draft Annual Governance Report (AGR) from Audit Commission. Members were asked to approve the audited Statement of Accounts for 2010/2011 and consider the amendments to the draft accounts and the draft Annual Governance Report and the Letter of Representation. Members were also requested to agree the Action Plan within the Annual Governance Report and were informed of progress with its implementation. As the Pension Fund received a separate AGR, it was noted that this report would first be considered by the Pensions Committee and then by the Audit and Risk Management Committee.

Resolved – That

1. **the Pensions Committee approve the audited Statement of Accounts for 2010/2011, and has given full consideration to the amendments to the draft accounts and the draft Annual Governance Report and the Letter of Representation.**
2. **the Action Plan within the Annual Governance Report be agreed, and that the Pensions Committee be informed of progress with its implementation.**
3. **the recommendations be referred to the Audit and Risk Management Committee.**

35 **AUDIT COMMISSION ANNUAL GOVERNANCE REPORT**

The District Auditor, gave a presentation on the Annual Governance Report summarising the findings of the 2010/2011 audit of Merseyside Pension Fund. and responded to Members questions.

Resolved – That the report be considered and noted.

36 **MEMBERS' TRAINING DAY**

A report of the Director of Finance informed Members of the training day on 20 October 2011, and provided details of the 2011 ‘Fundamentals’ training programme.

Resolved – That

1. **Members attend the training day on 20 October 2011.**

2. **Members notify the Director of Finance if they wish to attend any of the 'Fundamentals' days.**

37 **LAPFF CONFERENCE BOURNEMOUTH**

A report of the Director of Finance recommended the Committee to approve attendance by the Chair at the Local Authority Pension Fund Forum (LAPFF) Annual Conference, organised by PIRC, to be held in Bournemouth from 30 November to 2 December 2011.

Resolved – That attendance at the LAPFF conference by the Chair be approved.

38 **LGPS UPDATE**

A report of the Director of Finance updated Members on legislative and other developments affecting the Local Government Pension Scheme.

Resolved – That the report be noted.

39 **ANNUAL EMPLOYERS' CONFERENCE**

A report of the Director of Finance informed Members of the arrangements for the annual Employers' Conference to be held on Thursday 17 November 2011 at Aintree Racecourse.

Resolved - That Members attend the Annual Employers Conference.

40 **BANK AND OTHER AUTHORISED SIGNATORIES**

A report of the Director of Finance set out proposed changes to authorised signatories at Merseyside Pension Fund, following the completion of the restructuring.

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

The report also referred to operational decisions regarding authorised signatories for other transactions and procedures, by officers nominated by the Director of Finance. The report avoided doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for overseas jurisdiction.

Resolved – That

1. **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
Members Services Manager	Susan J. Roberts
Operations Manager	Guy W. Hayton
Group Accountant	Donna S. Smith

2. **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

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

4. **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, required 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

41 **DRAFT ANNUAL REPORT**

A report of the Director of Finance provided Members with the Draft Annual Report of Merseyside Pension Fund for 2010/11. The report was linked to the separate report on the Statement of Accounts for 2010/11 on the agenda.

A copy of the Annual Report was made available for Members at the meeting.

Resolved - That the Draft Annual Report of Merseyside Pension Fund be approved for publication.

42 **PROFESSIONAL PENSIONS AWARDS**

A report informed Members that Merseyside Pension Fund has been short listed by Professional Pensions in the Premier Scheme of the Year (over £2.5bn) category and asked Members to note the attendance at the awards by the Chair of the Committee.

Resolved – That

1. **the short listing of Merseyside Pension Fund in the Premier Scheme of the Year (over £2.5bn) category be noted**
2. **attendance at the awards ceremony by the Chair be noted.**

43 **TUNSGATE SQUARE SHOPPING CENTRE 'GREEN APPLE' AWARD**

A report of the Director of Finance advised Members that Tunsgate Square Shopping Centre, Guildford, part of the Merseyside Pension Fund property portfolio, has been identified for a "Green Apple" environment award.

Resolved – That

1. **the environmental award in respect of Tunsgate Square be noted.**
2. **attendance at the Green Apple Awards by the Chair be approved .**

44 **CORPORATE GOVERNANCE AND VOTING**

A report of the Director of Finance advised Members of the outcome of the procurement process to appoint a provider of corporate governance research and proxy voting services and to appoint the firm recommended in the Appendix.

The appendix to the report, (Selection of Corporate Governance Research and Proxy Voting Service Provider) contained exempt information. This was by virtue of paragraph 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).

Resolved – That

1. **the outcome of the procurement process be noted.**
2. **the firm recommended in the Exempt Appendix to the report be appointed.**

45 **AUTO ENROLMENT**

A report of the Director of Finance informed Members of impending workplace pension reforms which included a new duty on all employers to ensure employees were auto–enrolled into a qualifying pension scheme. The likely impact on Merseyside Pension Fund and its participating employers was highlighted with regard to additional costs, resources and the scheme's membership base.

Resolved – That the report be noted.

46 **ACADEMIES**

A report of the Director of Finance informed Members of a substantial increase in the number of Scheme Employers, resulting from local authority schools choosing to convert to Academy status under the Academies Act 2010.

Resolved – That

1. **the implications for MPF in terms of higher workloads and additional costs be noted.**

2. **a report be presented to the Employment and Appointments Committee on the additional staffing requirements arising from this report.**

47 **ADMISSION BODY APPLICATION - MACK TRADING**

A report of the Director of Finance informed Members of a decision taken under delegation, to approve the application received from Mack Trading (Heaton Park) to Merseyside Pension Fund as a Transferee Admission Body. The company had secured the operation of Bowring Golf Course contract, outsourced by Knowsley Borough Council, for the period 1 September 2011 to 31 August 2031.

Resolved - That the approval of the application for admission to the Merseyside Pension Fund of Mack Trading be noted.

48 **TAYLOR SHAW - REPORT**

A report of the Director of Finance informed Members of his decision taken under delegation, to approve the application received from Taylor Shaw to Merseyside Pension Fund as a Transferee Admission Body. The company had secured the catering contract at Grange Primary School, a Sefton School, for the period 1 April 2009 to 31 March 2013.

The Director of Finance also submitted an exempt report to Members.

Resolved –

That approval of the application for admission to the Merseyside Pension Fund of Taylor Shaw to undertake the catering contract at Grange Primary School be noted.

49 **IMWP MINUTES**

A report of the Director of Finance provided members with the minutes of the Investment Monitoring Working Party held on 6 September, 2011.

Appendix 2 to the report, (The minutes of the IWMP on 6 September, 2011), contained exempt information. This was by virtue of paragraph 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).

Resolved – That the minutes of the IMWP meeting held on 6 September, 2011 be approved.

50 **GOVERNANCE & RISK WORKING PARTY MINUTES - REPORT**

A report of the Director of Finance provided members with the minutes of the Governance & Risk Working Party (GRWP) held on 14 July 2011.

The minutes of the GRWP on 14 July 2011, contained 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).

Resolved – That the minutes of the Governance & Risk Working Party (GRWP) meeting on 14 July 2011 which were attached as an exempt appendix on the agenda be approved.

51 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1) - ADMISSION BODY APPLICATION - AGILISYS**

A report of the Director of Finance informed Members of his decision taken under delegation, to approve the application received from Agilisys for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured a schools' ICT. Contract for the period 1 August 2011 to 31 July 2019 with St. Helens Council.

Resolved – That the approval of the application for admission to the Merseyside Pension Fund of Agilisys be noted.

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

Resolved – 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 paragraph of Part1 of Schedule 12A (as amended) to that Act. The Public interest test has been applied and favours exclusion.

53 **NON RECOVERY OF OVERPAYMENTS**

A report of the Director of Finance requested approval to write off a total sum of £4,520.04 outstanding in respect of overpayments of pension that have arisen and which were now considered irrecoverable.

Details of the individual cases were submitted in the schedule attached to the report.

Resolved – That the sum of £4,520.04 in respect of pension overpayment be approved for write off.

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 NOVEMBER 2011

SUBJECT:	**INVESTMENT MONITORING WORKING PARTY MINUTES 12 OCTOBER 2011**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the minutes of the Investment Monitoring Working Party (IMWP) held on 12 October 2011.

1.2 Appendix 2 to the report, the minutes of the IWMP on 12 October 2011, 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 approve the minutes of the IMWP meeting which are attached as an appendix to this report.

3.0 REASON FOR RECOMMENDATION

3.1 The approval of IMWP minutes by the Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by the Pensions Committee as part of the Statement of Investment Principles at its meeting on 16 November 2010.

4.0 BACKGROUND AND KEY ISSUES

4.1 The relevant extracts from the Statement of Investment Principles for the role of the IMWP and Pensions Committee are set out below.

- Wirral Council is the Administering Authority with overall responsibility for Merseyside Pension Fund (MPF), which it delegates to its Pensions Committee. This body comprises 10 Wirral Councillors, with representation from other principal employers (5) and Trade Unions (3), representing beneficiaries’ interests. There is also an Investment Monitoring Working Party (IMWP) to which all members of the Pensions Committee and Trade Unions are invited; the IMWP meets six times a year.

- The terms of reference for the Committee, IMWP and the Director of Finance are set out in the scheme of delegation for Wirral Council; the structural and operational details of the delegation are set out in a Governance Policy Statement for Merseyside Pension Fund, which can be viewed at: http://mpfmembers.org.uk/pdf/gov_policy.pdf.

- The Pensions Committee takes strategic decisions on asset allocation, investment manager selection and other high-level investment policy matters and delegates tactical asset allocation and investment monitoring through the IMWP. The IMWP is a deliberative body, acting as a forum where investment issues can be discussed in depth, with the power to make recommendations to Committee. The Director of Finance of Wirral Council (Section 151 Officer) is delegated to implement Committee policy and manage MPF, leading a well qualified and experienced internal team.

- The Committee receives what it considers to be proper advice from officers and, in addition, has appointed an external consultant to provide advice on its high-level investment strategy. The Committee has also appointed an independent adviser to the IMWP, to further inform and support decision-making across the breadth of issues that are considered by the IMWP.

4.2 The key items arising from the IMWP minutes are.

The noting of presentations from M&G, Schroders and Legal & General .

5.0 RELEVANT RISKS

5.1 Not relevant for 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 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no planning or community safety implications arising from this report.

FNCE/254/11

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APPENDICES

The attendance at the meeting is attached as appendix one to this report The detailed minutes are an exempt appendix two.

REFERENCE MATERIAL

No reference material used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee : **Statement of Investment Principles** **The IMWP minutes are reported to the subsequent Pensions Committee Meeting.**	**16 November 2010**

Appendix 1

Minutes of the meeting of the Investment Monitoring Working Party,

12 October 2011

In attendance:

(Chair) Councillor Geoffrey C.J. Watt (WBC)	David Taylor-Smith (Deputy Director of Finance)
Councillor George Davies (WBC)	Peter Wallach (Head of MPF)
Councillor Mike Hornby (WBC)	Paddy Dowdall (Investment Manager)
Paul Wiggins (Unison)	Owen Thorne (Investment Officer)
Greg Campbell (Investment Manager)	Donna Smith (Group Accountant)
Allister Goulding (Investment Manager)	Noel Mills (Investment Advisor)
Adil Manzoor (Accountant Assistant)	Emma Jones (PA to Head of MPF)

Apologies were received from:

Councillor Harry Smith (WBC)	Councillor Ann McLachlan (WBC)
Councillor Norman Keats (Knowsley BC)	Councillor Tom Harney (WBC)
Councillor Joe Hanson (Liverpool CC)	Ian Coleman (WBC)

1. Minutes of the previous IMWP meeting

The minutes of the meeting held on 6 September 2011 had been accepted by Pensions Committee on 19 September 2011.

The Chair, Councillor Geoffrey Watt (GW) asked if anyone had any Declaration of Interest. There were none to record.

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 NOVEMBER 2011

SUBJECT:	**LGPS UPDATE**
WARDS 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 consultation published on 7 October 2011 by the Department for Communities and Local Government (DCLG) proposing options to change the Local Government Pension Scheme (LGPS) in order to deliver £900m savings by April 2015 .A copy of the consultation document is attached at Appendix 1. The closing date for responses is 6 January 2012.

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 Members previously considered the expected timeframe and parameters for implementation of short term reform on 19 September 2011 (Minute 38 refers).

4.2 The consultation focuses on the HM Treasury previously identified need for the LGPS to deliver savings of £900m over a three year period. Commencing from April 2012, the measures will be completed in time for the introduction of a reformed LGPS as recommended by Lord Hutton of Furness.

4.3 The priority for reform is to protect the high proportion of low paid part-time members, ensuring contribution increases are progressive so that high earners pay proportionally more, reflecting their more generous pensions at retirement.

4.4 The Government acknowledges that unlike the unfunded public sector schemes there is scope to consider alternative measures of securing the required savings, rather than merely increasing employee contribution tariffs.

4.5 Any alternative measure must still maintain the previously identified protections for the lowest paid:

- No increase to member contributions for those earning less than £15,000;
- An increase limited to 1.5% of pay for those earning up to £21,000;
- Increases for high earners no more than 6% of gross pay.

4.6 Two distinct options have been put forward for consideration by DCLG:

Option 1

- An increase in the employees' contribution tariff from April 2012 of 1.5 per cent of pensionable pay to raise £450m

- Changes to the accrual rate from 60th to 64th in 2013/14 and to 65th in 2014/15 to raise an additional £450m

Option 2

- An increase in the employees' contribution tariff from April 2012 of 1 per cent of pensionable pay to raise £300m

- Changes to the accrual rate from 60th to 67th in 2014/15 to raise an additional £600m

4.7 In support of the two options, DCLG has issued proposed amendments to the existing tiered member contribution rates. In addition to increasing the rates DCLG has also introduced a further four salary bands above £43,300 per annum.

Option 1
Proposed phased contribution increases equivalent to 1.5 per cent of the total LGPS national payroll

Salary Band	**Current**	**2012/13**	**2013/14**	**2014/15**	
£0 - £12,900	5.5%	5.5%	5.5%	5.5%	
£12,901- £15,100	5.8%	5.8%	5.8%	5.8%	
£15,101- £19,400	5.9%	5.9%	6.0%	6.0%	(0.1%)
£19,401- £21,000	6.5%	6.7%	7.2%	7.7%	(1.2%)
£21,001- £32,400	6.5%	7.2%	8.0%	8.3%	(1.8%)
£32,401- £43,300	6.8%	7.5%	8.3%	8.7%	(1.9%)
£43,301- £60,000	7.2%	8.2%	8.7%	9.0%	(1.8%)
£60,001- £81,100	7.2%	8.7%	9.2%	10.0%	(2.8%)
£81,101- £100,000	7.5%	9.0%	9.8%	11.0%	(3.5%)
£100,001- £150,000	7.5%	9.5%	11.0%	12.0%	(4.5%)
£150,001 +	7.5%	10.0%	12.0%	12.5%	(5.0%)

Option 2
Proposed phased contribution increases equivalent to 1 per cent of the total LGPS national payroll

Salary Band	Current	2012/13	2013/14	2014/15
£0 - £12,900	5.5%	5.5%	5.5%	5.5%
£12,901- £15,100	5.8%	5.8%	5.8%	5.8%
£15,101- £19,400	5.9%	5.9%	6.0%	6.0% (0.1%)
£19,401- £21,000	6.5%	6.5%	6.8%	6.8% (0.3%)
£21,001- £32,400	6.5%	6.8%	7.2%	7.5% (1.0%)
£32,401- £43,300	6.8%	7.1%	7.8%	8.2% (1.4%)
£43,301- £60,000	7.2%	7.8%	8.4%	8.8% (1.6%)
£60,001- £81,100	7.2%	8.7%	8.8%	9.5% (2.3%)
£81,101- £100,000	7.5%	9.0%	9.8%	10.5% (3.0%)
£100,001- £150,000	7.5%	9.3%	10.8%	11.5% (4.0%)
£150,001 +	7.5%	9.5%	11.8%	12.5% (5.0%)

4.8 The proposed contribution increases have been calculated by the Government Actuary Department (GAD) based on national salary data. This compares to MPF as below:

Salary Band	% of membership	
	National Average	MPF
£0 - £12,900	8.67%	16.54%
£12,901- £15,100	10.61%	11.60%
£15,101- £19,400	25.20%	21.49%
£19,401- £21,000	7.47%	6.11%
£21,001- £32,400	31.34%	31.81%
£32,401- £43,300	11.16%	8.77%
£43,301- £60,000	4.18%	2.69%
£60,001- £81,100	0.91%	0.64%
£81,101- £100,000	0.25%	0.16%
£100,001- £150,000	0.16%	0.15%
£150,001 +	0.05%	0.04%

4.9 The consultation paper does indicate a third proposal, suggesting that the LGPS normal retirement age is aligned with the national State Pension Age. The DCLG indicates that this would deliver annual savings in the region of £330m.

4.10 As previously reported the Local Government Group (LGG) has been in ongoing discussions with the trade unions. However, it has not, so far, been possible to reach agreement on a joint proposal. Therefore LGG wrote to the Secretary of State on 21 September 2011 (copy letter attached at Appendix 2) setting out proposals to achieve the equivalent 3.2 per cent savings.

4.11 The key elements of the LGG proposal are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000

- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65

4.12 MPF has previously consulted with the membership, most recently in response to the interim Hutton report in 2010. The responses received as part of that consultation support the continued view that the membership would support an alignment of Normal Retirement Age with State Pension Age, rather than a reduction in the LGPS accrual rate.

4.13 MPF will be consulting again with the membership before responding formally to the consultation in January 2012. The response will take account of all available information and the considered opinion of the membership.

4.14 As the consultation paper does indicate a third proposal, suggesting that the LGPS normal retirement age is aligned with the national State Pension Age. MPF will present this to the membership as part of the consultation.

4.15 The DCLG indicates that aligning normal retirement age would deliver annual savings in the region of £330m. If this approach was adopted from April 2012 it would deliver all of the required savings in the three year timeframe.

4.16 However, if there continues to be a political imperative to increase member contributions then a phased uniform 1 per cent increase above salary of £15,000 would be more acceptable and reduce the likelihood of opt-outs. In this scenario, the change to normal retirement age for service would only need to come into operation for two years from April 2013, in order to meet all Government objectives.

4.17 Members could still choose to retire from age 60 but would receive reduced pensions to take account of early payments. The demographics of the LGPS mean that 50% of membership receive low pay and may not be in a position to retire from employment before state pension age.

4.18 HM Treasury has set the cost ceilings for the public sector schemes from April 2015. These are based on the adoption of the Hutton recommendation of a Career Average Pension Scheme:

- NHS scheme should cost no more than 20.2% of salaries, with staff paying 9.5%
- Civil service scheme should cost no more than 20.8% of salaries, with staff paying 5.6%.
- Teachers' scheme should cost no more than 20.1% of salaries, with staff paying 9.6%
- Local Government scheme should cost no more than 18.8% of salaries, with employees paying 8%

4.19 Unfortunately, the Treasury announcement does not take into consideration the funded nature of the LGPS. The actual cost ceiling for the LGPS from April 2015 is dependant on the outcome of the current statutory consultation.

4.20 The additional income saved from the scheme amendments will help to re-balance the costs of pension provision between scheme members, employers and tax payers.

4.21 This saving will be reflected in reductions to employer contributions as part of the statutory triennial valuation process. The current regulations do not allow a downward revision of employer contribution rates between inter-valuation and appropriate amendments are required to enact any certified adjustment.

5.0 RELEVANT RISKS

5.1 If the outcome of the short term scheme reforms proves to be too costly for the individual members it will rapidly increase the number of members who will choose to opt out of the Scheme, as it will be reasoned as “unaffordable” or at worst, not worthwhile.

5.2 The LGG proposal to offer individuals an option with regard to either an increase in contributions or reduction in accrual will lead to unnecessary complexity for members, employers and the effective administration of the Scheme. The survival of the LGPS requires simplicity and transparency to reduce the risk of confusion to members, increasing opts out and poor take up.

5.3 Employer costs would increase in any significant reduction of active membership due to the associated adverse impacts on Scheme maturity and funding.

6.0 OTHER OPTIONS CONSIDERED

6.1 Some administering authorities are considering an early response to the consultation, proposing that the LGPS should accelerate the adoption of a Career Average benefit package in advance of April 2015.

6.2 Such major reform is likely to prove impracticable within the required timeframe for short-term savings.

7.0 CONSULTATION

7.1 MPF is planning to consult with members as to their preferred option to deliver the required savings. This will be done by newsletter, website and an online survey.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 MPF has forwarded the consultation document to all Scheme Employers who represent all sectors of the community.

8.2 MPF will keep all Scheme Employers informed of responses to the consultation.

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

9.1 The outcome of the Government response to consultation with stakeholders on the short term reform of the Pension Scheme including increases in employee contribution rates may have significant impacts on the Scheme, employers and members.

9.2 Depending on the outcome of the reforms there will be increases in the resources required to deliver the relevant communications, administrative processes and changes to systems.

9.3 In light of the corrosive publicity surrounding scheme reform it is necessary to conduct a significant communication exercise to promote the scheme as an excellent tax efficient, secure, and valuable source of deferred income to which employers contribute a substantial share of the cost.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 The consultation document relates to statutory policy with due consideration already addressed by the DCLG with regard to equality.

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.

REPORT AUTHOR: **YVONNE CADDOCK**
PRINCIPAL PENSION OFFICER
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email: yvonnecaddock@wirral.gov.uk

APPENDICES

1 Department for Communities and Local Government Consultation document dated 7 October 2011

2 Local Government Group letter of 21 September 2011 to the Secretary of State

SUBJECT HISTORY (last 3 years)

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

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Communities and Local Government

www.communities.gov.uk
community, opportunity, prosperity

TBJ Crossley
Deputy Director
Workforce, Pay and Pensions
Zone 5/F5 Eland House
Bressenden Place
London SW1E 5DU

Telephone: 0303 44 42168

Website: www.communities.gov.uk

To Local Government Pension Scheme interests in England and Wales (see list below)

7 October 2011

Dear Colleagues,

Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 (SI 2007/1166) (as amended)

Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended)

Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012 in England and Wales

Introduction

1.1 With ministers' agreement, this consultation paper sets out the Government's draft proposals to achieve short term savings of £900m within the Local Government Pension Scheme ('LGPS') by 2014-15, equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes.

1.2 This consultation exercise marks the start of the formal statutory consultation process for proposed amendments to the LGPS Regulations (mentioned above), as required by section 7(5) of the Superannuation Act 1972.

1.3 Your comments are now invited on the proposed amendments, described in paragraphs 4.1 to 4.5 and Annex A, and should be sent preferably by email to Richard.mcdonagh@communities.gsi.gov.uk

Alternatively, postal responses may be sent to:

The LGPS Pension Team
5/G6,
Department for Communities and Local Government
Eland House,
Bressenden Place
London SW1E 5DU

1.4 **The closing date for responses is 6 January 2012**.

1.5 The intention is that the proposed amendments to the scheme's regulatory framework will take effect from 1 April 2012, subject to the outcome of this consultation exercise.

1.6 Consultees are reminded that the proposed amendments, and any others brought forward, will continue to be discussed at forthcoming meetings of the Policy Review Group, and at other meetings being arranged by the Department with LGPS business partners within the statutory consultation period.

1.7 The details of the possible amendments to the existing LGPS regulatory framework are explained in paragraphs 4.1 to 4.8.

Policy context

2.1 In June 2010 the Government commissioned former Work and Pensions Secretary, Lord Hutton, to chair the Independent Public Service Pensions Commission's review into the long term future of public service pensions. In his final report Lord Hutton set out his recommendations on how these can be made sustainable and affordable in the long-term, whilst at the same time being fair to both public sector workers and the taxpayer. Lord Hutton concluded that reform was needed.

The Government accepted his recommendations as a basis for consultation with public sector workers, trade unions and other interested parties about the need for long term reform. The Government intends to introduce changes from 2015 and has confirmed that all pension benefits earned up that point will be protected. The reforms will ensure that all public service pensions, including the LGPS, will continue to be amongst the best pensions available. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Delivery of short term savings

3.1 Before making his recommendations for wider reform, Lord Hutton published his interim report. This recommended that if the Government wished to make short term savings to meet current cost pressures, then raising contribution rates would be the most effective way to achieve that objective. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

3.2 Lord Hutton set out the following rationale for increasing member contributions to public service pension schemes:

a. people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people's lives are now being spent in retirement – between 40 per cent to 45 per cent of adult life compared with around 30 per cent for pensioners in the 1950s

b. as people are living longer in retirement, the cost of providing pensions is increasing; annual expenditure on public service pensions over the last decade has increased by a third to £32bn. And in the case of the LGPS, expenditure on benefits has increased from £1.8bn to £6bn since 1997

c. taxpayers can't be expected to bear all the cost of increased longevity. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

3.3 At the Spending Review, the Chancellor acted upon the rationale Lord Hutton set out by announcing that employee contributions would be increased by an average of 3.2 percentage points in the unfunded public service pension schemes. This will make savings of £2.8bn a year by 2014-15, to be phased in from April 2012.

3.4 The Chief Secretary to the Treasury's statement to the House on 19 July 2011 confirmed that the unfunded schemes would begin formal consultations on the proposed increases in employee contribution rates for 2012-13. In recognition of the funded nature of the LGPS, the Government accepted that separate discussions should take place to see whether alternative ways to deliver some or all of the savings could be found. The equivalent savings in the LGPS are £900m in England and Wales. The Chief Secretary to the Treasury's statement can be found at www.hm-treasury.gov.uk/press_83_11.htm

3.5 On 20 July, the Secretary of State for Communities and Local Government wrote to Sir Merrick Cockell, Chair of the Local Government Group, inviting him to discuss with the local authority trades unions a package of measures to secure the required short-term savings of £900m by 2014-15. The Group was asked to report the outcome of its discussions to the Secretary of State by 9 September.

3.6 Neither the Local Government Group nor the local authority trades unions were in a position to submit proposals as requested by 9 September. Subsequently, on 21 September, the Local Government Group wrote to the Secretary of State with their proposals to achieve the savings requested These are summarised at paragraph 4.7 and a full copy attached at Annex **B** and related costings are at Annex **C.**

3.7 The Local Government Group's proposals can be considered fully within the statutory consultation framework. If discussions between the Local Government Group and local authority trades unions continue, and any other proposals eventually come forward, either separately or jointly, these can also feed into the statutory consultation process alongside any other comments or proposals submitted by other consultees. The Scheme's Policy Review Group provides an expert forum for analysis and discussion to take place. The Government would welcome this discussion continuing and will fully explore any new proposals that are put forward.

Parameters for member contribution increases

3.8 The Government believes that any proposed increases in contribution rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

3.9 These parameters, outlined below, are reflected in the tariffs being proposed in this consultation document. All references are to full time equivalent salaries:

- there should be no increase in employee contributions for those earning less than £15,000
- there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis; and
- high earners in the LGPS should pay progressively more than those in lower salary bands more, but no more than 6 percentage points (before tax relief) more

Proposals for the Local Government Pension Scheme

4.1 For the LGPS in England and Wales, ministers believe there is an opportunity to consider a broad range of measures to secure appropriate levels of savings for scheme employers. This should enable the Government's priorities in implementing the £900m savings package to be met; protecting the high proportion of low paid, part-time members of the Scheme; and ensuring contribution increases are progressive.

4.3 **Option 1 -** The following approach fully meets the Government's priorities. This is the option on the basis of which we have set the cost ceiling[1] for wider reform of the Local Government Pension Scheme.

Option 1 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements:

i) An increase in the employees' contribution tariff from April 2012, to raise an additional £450m (1.5 per cent of pensionable paybill), and

ii) A change in the scheme's accrual rate from April 2013, to raise an additional £450m (1.5 per cent of pensionable paybill)

A more detailed analysis is shown at Annex A

1 The cost ceilings was set with reference to the scheme specific contribution rates required to provide the benefits for a 'Reference Scheme' design, based on Lord Hutton's recommendations for scheme reform. This will inform discussions at scheme level with local government trade unions. Should the outcome of this consultation process be that member contribution increases are not 1.5 pp, the cost ceiling will be amended appropriately.

4.4 The Government Actuary's Department confirms that the measures described at **Annex A** above can achieve the required savings of £900m by 2014-15.

4.5 **Option 2 -** A variation on that approach involving lower tariff increases, but offset by greater changes in accrual rate, or vice versa, could be chosen. One approach is set out below.

Option 2 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements. It differs from Option 1 due to a lower contribution rate increase which is offset by a greater reduction in the accrual rate:

i) An increase in employees' contribution tariff from April 2012, to raise an additional £300m (1 per cent of pensionable paybill), and

ii) A change in scheme's accrual rate from April 2014, to raise an additional £600m (2 per cent of pensionable paybill)

A more detailed analysis is shown at Annex A

4.6. **Normal Pension Age:** In his final report, Lord Hutton recommended that the pension age in public sector schemes could be linked to the State Pension Age.

According to the Government Actuary's Department, setting the national pension age of the LGPS at the national State Pension Age would deliver annual savings in the region of £330m if implemented for future service accruals.

Measures to achieve the remaining required savings could include a combination of changes to accrual rate and employees' contributions.

4.7 **Local Government Group:** In response to the Secretary of State's invitation of 20 July, the Local Government Group submitted a proposal to secure £900msavings by 2014-15. This consists of an increase to the normal pension age to 66, and a member choice of an increased contribution rate of change in the scheme's accrual rate.

4.8 The Local Government Group's submission (including detailed costings) to the Secretary of State for Communities and Local Government can be found in full in **Annex B** and **C** respectively.

Part time members

4.9 The current scheme regulations require that the appropriate contribution band for part time members is determined by their full time equivalent salary. The amount payable is then based on the individual's actual pay. This will continue to apply. For example, a scheme member currently working part time, doing 50 per cent of full time hours and earning £14,000 will have a full time equivalent salary of £28,000. The rate of 6.5 per cent is therefore applied to the actual earnings of £14,000. It is important to note that although the actual earnings fall within the protection threshold described at para 3.8 above, these protections, like the tariff bands, are based on full time equivalent salaries, in this example, £28,000.

Provision allowing scheme employers to benefit from savings

4.10 The additional income achieved from the scheme amendments following the Spending Review announcement will help to re-balance the costs of public service pension provision between scheme members on the one hand, and employers and taxpayers on the other. In the context of the funded, locally administered LGPS, this is achieved when employers' contributions are reduced as part of the scheme's statutory triennial actuarial valuation process. However, the current regulations do not allow a downward revision of employer contribution rates between three-yearly actuarial valuations.

4.11 To ensure LGPS employers and taxpayers benefit from the savings achieved by the statutory amendments finally introduced, we suggest that it would be necessary to provide a technical amendment, effective from April 2012, that enables scheme-appointed actuaries to vary rates and adjustment certificates both between valuation exercises (i.e. between the 2010 and 2013 valuations), and provide that the accrual rate changes proposed are reflected specifically in the 31 March 2013 valuation exercise to reflect the level of savings produced in scheme employers` contribution rates from April 2014. Views are invited on this particular proposal and how best it might be achieved in regulatory terms.

Summary

5.1 The Government Actuary's Department confirms that the introduction of the measures summarised in paragraphs 4.3 and 4.5 above and described in more detail at **Annex A**, can achieve the required savings of £900m by 2014-15.

Consultation responses

6.1 Consultees' views on the proposals outlined in section 4 are formally sought by 6 January 2012. However, as set out below, those may be subject to modification in response to submissions received from consultees in the course of the consultation period.

Other proposals

6.2 As referred to in paragraph 4.7, the Local Government Group has submitted their proposed package of savings to the Secretary of State. The Department intends to analyse and consider the details of the submission with advisers to the Group within the statutory consultation exercise period.

6.3 Any further alternative proposals which may be submitted should if possible:

- be actuarially costed and verifiable and be clearly explained to provide efficient assessment
- be capable of implementation within the legal powers which govern the regulatory framework of the scheme and
- not take account of the recent changes in indexation from RPI to CPI or the impact of projected workforce reductions which have already been factored into recent LGPS pension fund valuations

6.4 To assist the Department's considerations, consultees who may wish to submit alternative proposals:

- are invited to signal their intention to do so as soon as possible, please, and by **28 October** at the latest and
- are requested, please, to submit any specific costed options by no later than **25 November,** to allow an opportunity for discussion and appraisal

Next steps

7.1 The Department invites consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following questions:

- **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?
- **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?
- **Question 3** – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?
- **Question 4** - Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?
- **Question 5** - Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

Use of information

8.1 This consultation will be available for viewing on the LGFPS website at http://www.clg.heywood.co.uk/homepage. A summary of responses will be published within three months of the close of the consultation on this website.

8.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

8.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

8.4 The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Yours sincerely,

TBJ Crossley

T B J CROSSLEY

The consultation is addressed to:

The Chief Executive of:
- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- Bradford Metropolitan City Council
- South Tyneside Metropolitan Borough Council
- Wolverhampton Metropolitan Borough Council
- London Pension Fund Authority
- Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
Audit Commission
National Probation Service for England and Wales
New Towns Pension Fund

Local Government Association (LGA)

Employers' Organisation
LGPC

ALACE
PPMA
SOLACE
CIPFA
ALAMA

Association of Colleges
Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
Society of Welsh Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers
Society of Chief Personnel Officers
Association of Educational Psychologists

NALC
Society of Local Council Clerks

Trades Union Congress	UCATT
UNISON	GMB
NAEIAC	NAPO
UNITE	

Equal Opportunities Commission

Annex A: Local Government Pension Scheme in England and Wales

Government's proposals to achieve the required savings of £900m by 2014-15

Design principles

1. The Government believes that any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

2. These parameters, outlined below, are reflected in the tariff proposed in this paper (all references are to full time equivalent salaries):

   - there should be no increase in employee contributions for those earning less than £15,000

   - there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis

   - high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis

3. For the LGPS in England and Wales, ministers believe there is a case to consider a broader range of opportunities to secure appropriate levels of savings for employers within the scheme. The scheme's funded status lends itself to this approach which not only helps to protect the high proportion of low paid, part-time members of the scheme but it assists directly in the Government's objective to minimise opt-outs and contribute to the ongoing viability of the funded LGPS, itself a major policy component of the package given the national significance of LGPS pension funds by value.

Existing tariff

4. The existing levels of employee contributions as currently set out in regulation 3 of the Local Government Pension Scheme (Benefits, Contributions and Membership) regulations 2007 (the Benefits Regulations) are as follows:

£0 - £12,600	5.5%
£12,601 - £14,700	5.8%
£14,701 - £18,900	5.9%
£18,901 - £31,500	6.5%
£31,501 - £42,000	6.8%
£42,001 - £78,700	7.2%
£78,701 +	7.5%

Government proposals for the Local Government Pension Scheme

5. The Government proposes to achieve the required savings of £900m by 2014-15 from a combination of a proportionate increase in the rate of contribution paid by scheme members and a marginal change in the rate at which scheme benefits are accrued. The proportion of each element relative to the required £900m savings would therefore have different impacts on the extent to which scheme members bear additional costs now (increase in the contribution rate) or later, on retirement (change in the accrual rate).

6. Comments are therefore invited on two possible approaches, the first of which achieves most of the savings from the proposed change in accrual rate, thus impacting less on scheme members' disposable income and the second, weighting more of the required savings towards increases in scheme members' contribution with less impact on future accrual under the current scheme.

Approach 1

7. Under this proposal, £450m (equivalent to 1.5 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	**Current**	**2012/13**	**2013/14**	**2014/15**
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	2012/2013		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.00%	0.56%	19
£80,000	4.32%	5.22%	0.90%	60

1:Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2013/2014		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.40%	1.20%	25
£40,000	5.44%	6.64%	1.20%	40
£80,000	4.32%	5.52%	1.20%	80

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2014/2015		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.64%	1.44%	30
£40,000	5.44%	6.96%	1.52%	51
£80,000	4.32%	6.00%	1.68%	112

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

8. The balance of £450m in this case would be achieved a by a stepped change in the scheme's accrual rate from the current rate of 1/60ths to 1/64ths with effect from April 2013 and to 1/65ths with effect from April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate from 60ths to 64ths in 2013-14 and to 65ths in 2014-15:

Final pensionable pay (31.03.2015)	1 year of service		
	1/64th	1/65th	% Change
£10,000	£156.25	£153.85	-1.54%
£25,000	£390.63	£384.62	-1.54%
£40,000	£625.00	£615.38	-1.54%
£80,000	£1,250.00	£1.230.77	-1.54%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	64ths and 65ths in last two years	% Change
£10,000	£833.33	£810.10	-2.79%
£25,000	£2,083.33	£2,025.25	-2.79%
£40,000	£3,333.33	£3,240.38	-2.79%
£80,000	£6,666.67	£6,480.77	-2.79%

In the above table, the member accrues 60ths for three years, 64ths for 1 year and 65ths for one year.

A member with final pensionable pay of £40,000 and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 64ths in 2013-14 and to 65ths in 2014-15, then the accrued pension at 31 March 2015 will be around 3 per cent lower at £3,240.38.

9. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£180m	£360m	£450m
Accrual Rate	£0	£360m	£450m
Total	**£180m**	**£720m**	**£900m**

10. In line with the Government's preferred design, the overall savings achieved from the above proposed increases in employees' contribution rates have been phased in over the Spending review period on a ratio of 40:40:20.

Approach 2

11. Under this proposal, £300m of the £900m required savings (equivalent to 1 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	**Current**	**2012/13**	**2013/14**	**2014/15**
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	**2012/2013**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.44%	0.24%	5
£40,000	5.44%	5.68%	0.24%	8
£80,000	4.32%	5.22%	0.90%	60

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2013/2014**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.24%	0.80%	27
£80,000	4.32%	5.28%	0.96%	64

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2014/2015**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.00%	0.80%	17
£40,000	5.44%	6.56%	1.12%	37
£80,000	4.32%	5.70%	1.38%	92

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

12. It is proposed that the balance of £600m (equivalent to 2 per cent) would be achieved by a change in the Scheme’s accrual rate from the current 1/60th to 1/67th with effect from 1 April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate during the year 2014-15.

Final pensionable pay (31.03.2015)	One year of service		
	1/60th	1/67th	% Change
£10,000	£166.67	£149.25	-10.45%
£25,000	£416.67	£373.13	-10.45%
£40,000	£666.67	£597.01	-10.45%
£80,000	£1,333.33	£1.194.03	-10.45%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	1/67th	% Change
£10,000	£833.33	£815.92	-2.09%
£25,000	£2,083.33	£2,039.80	-2.09%
£40,000	£3,333.33	£3,263.68	-2.09%
£80,000	£6,666.67	£6,527.36	-2.09%

A member with Final Pensionable Pay of £40,000 pa and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 67ths in 2014-15, then the accrued pension at 31 March 2015 will be around 2 per cent lower at £3,263.68 pa.

13. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£95m	£220m	£300m
Accrual Rate	£0	£0m	£600m
Total	**£120m**	**£240m**	**£900m**

Annex B: Local Government Group proposals, 21 September 2011

Local Government Pension Scheme – Proposed increase in employee contributions

As you will be aware, in the public sector Spending Review statement in October 2010 the Government announced its intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). The Government intended that the increases should be introduced progressively over the period 2012-13 to 2014-15. It was subsequently confirmed that the level of increase for members of the Local Government Pension Scheme (LGPS) would be 3.2 per cent, on average.

The Local Government Group made representations to the Government that the funded nature of the LGPS meant that income equivalent to a 3.2 per cent increase could be generated in ways other than wholly via an increase in employee contributions. As a result of those representations the Secretary of State for Communities and Local Government wrote to me on 20 July 2011 asking the Group to enter into discussions with the local government trade unions. This was with a view to establishing a package of measures to secure short term savings by 2014-15, equivalent to a 3.2 per cent increase in employee pension contribution rates, with any necessary legislation to be in place by 1 April 2012. The package could include alternative ways to deliver some or all of the savings, whilst providing protections from contribution increases for the lower paid.

The LG Group has been in discussions with the trade unions since then.

The Secretary of State's letter of 20 July 2011 initially required the Group to provide him with an update on the outcome of the discussions by 9 September but a short extension to this deadline was subsequently allowed. However, despite constructive discussions with the trade unions, it has not so far been possible to reach agreement on a joint proposal to put to the Secretary of State.

I have therefore written to the Secretary of State (on 21 September 2011) setting out the Group's proposals as to how the required 3.2 per cent savings can be achieved in a way which we believe is fair to employees and affordable for the taxpayer (as an alternative to the level of increases in employee contributions that DCLG might otherwise come forward with). The proposals minimise the impact on the lower paid whilst at the same time giving choice to individuals.

The key elements of the Group's proposals are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000

- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65

A full copy of my letter to the Secretary of State is available at http://www.lge.gov.uk/lge/core/page.do?pageId=1 under 'News and features' together with some worked examples of the effect the choice mentioned in the second bullet point above would have on individuals.

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)

- would help the low paid to stay in the scheme and reduce opt out rates

- give employees a choice, which they can exercise in the light of their own personal circumstances

- ensure that those employees earning above the £15,000 threshold who want to keep their current pension accrual rate will have to pay more to retain that accrual rate, and

- reduce the risk of industrial action

We understand that the Secretary of State will issue a statutory consultation document towards the end of September setting out the DCLG proposals for how the 3.2 per cent savings could be met. We would hope that consultation paper will make some reference to the LG Group proposals and it is our intention to continue discussions with the trade unions.

Annex C: Costings submitted with Local Government Proposals, 21 September 2011

1 Data

1.1.1 We have used national salary data to estimate the possible savings. We have assumed a £30bn payroll split as shown below.

	Low er Band	Upper Band	Current Rate	Actual Salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,996,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	plus	7.5%	£730,231,193
Total				£30,000,000,000

1.1.2 This is the best available national data we have and is available in summary form only.

1.1.3 We note that contribution bands have changed but the overall shape of the salary distribution is assumed to remain relevant for this exercise. Any further up to date data becoming available should be used to update the calculations.

1.2 Core element 1 - increasing normal retirement age

1.2.1 Increasing the retirement age for all by one year reduces the ongoing cost of the scheme by about 1 per cent to1.5 per cent of payroll though this will vary by fund. We have assumed that GAD may value this on detailed national data on an average set of fund valuation assumptions and have assumed that 1 per cent of payroll will be saved by adopting this change. This is equivalent to £300m per year on the data shown above.

1.3 Core element 2 - accrual or contribution rate changes

1.3.1 We have therefore considered how we can raise the further £600m being required by HM Treasury.

1.3.2 There are infinite combinations of contribution increases that will provide the £600m provided there are no opt outs, the data remains as estimated above and at this stage we are considering that 60ths accrual remains.

1.3.3 We have shown three examples below. These show the impact and make no allowance for any further options being proposed.

Table 1.3	Lower Band	Upper Band	Current contribution	a) same increase	b) same uplift	c) steeper increase
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	1.9%	1.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%	1.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%	2.0%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.2%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.3%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£605m	£605m

1.3.4 We have assumed that lower paid protection level is set at £15,000 and members with salaries below this level will not be required to increase their contribution levels going forward.

1.3.5 As can be seen, all these options will provide for the required income target. However, there is a higher risk of opt out for higher contribution increases, especially at lower salary levels. We consider that steeper patterns than option c) will effect much higher levels of opt out at higher salary bands, with the possible cascade effect as members follow behaviour patterns of their senior managers or directors.

1.3.6 Option c) also meets the patterns required for other public sector schemes in that a 1.5 per cent limit it set for those with salaries up to £21,000.

1.4 Core element 3 - reduce accrual option

1.4.1 This section shows the possible savings from providing a reduced accrual option.

1.4.2 These savings assume that all members opt for the reduced accrual option.

Table 1.4	Lower Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduce accrual (68ths)	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.4%	2.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.4%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.4%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£675m	£715m

1.4.3 The accrual reduction that provides for £600m will depend upon both how the GAD value the reduced accrual change of the benefits on national detailed data.

1.4.4 It will also depend upon where the lower paid protection limit gets set and the above assumes that this is set at £15,000.

1.5 Core element 3 – the lower paid

1.5.1 The model suggested allows for lower paid members to pay reduced contributions if they choose the lower accrual route. We have used 68th accrual in the following table and assumed that a reduction in contributions of say 60/68 times the current rate would be a fair level of reduction.

Table 1.5	Low er Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduced contributions	Net effect
Band 1	£0	£12,600	5.5%	2.4%	0.6%	1.7%
Band 2	£12,601	£14,700	5.8%	2.4%	0.7%	1.7%
Band 3	£14,701	£18,900	5.9%			
Band 4a	£18,901	£21,000	6.5%			
Band 4b	£21,001	£24,000	6.5%			
Band 4c	£24,001	£31,500	6.5%			
Band 5	£31,501	£42,000	6.8%			
Band 6	£42,001	£78,700	7.2%			
Band 7	£78,700	plus	7.5%			
Total raised				£32m	£10m	£22m

1.5.2 As can be seen above the saving will depend upon how much a reduction in contributions is offered to the lower paid members and how many of the lower paid opt for reducing accrual compared to the status quo.

1.5.3 However, we feel it remains equitable to offer this reduced cost option, setting the possible accrual level at the same level as the higher paid to provide the lower paid with a similar choice.

1.5.4 Any savings made from the above will depend on members choice so should not be included as certain in the total costs.

1.6 Core element 3 – the higher paid

1.6.1 The model suggested that higher paid members will retain their current 60th accrual by paying more into the scheme. However we recognise that this will not be attractive and perhaps unaffordable for some.

1.6.2 In this section therefore we have shown possible reduced accrual options that would provide these members with an alternative allowing their current contribution rates to remain.

1.6.3 We have shown three cases below corresponding to the tables of proposed contribution increase tariffs within section 1.4.

Table 1.6 a	Lower Band	Upper Band	Current contr bution rate	a) same increase	Reduce accrual (67ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.1%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%
Band 5	£31,501	£42,000	6.8%	2.1%	2.1%
Band 6	£42,001	£78,700	7.2%	2.1%	2.1%
Band 7	£78,700	plus	7.5%	2.1%	2.1%
Total raised				£600m	£600m

Table 1.6 b	Lower Band	Upper Band	Current contr bution rate	b) same proportionate increase	Reduce accrual (68ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.9%	2.4%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%
Band 5	£31,501	£42,000	6.8%	2.2%	2.4%
Band 6	£42,001	£78,700	7.2%	2.3%	2.4%
Band 7	£78,700	plus	7.5%	2.4%	2.4%
Total raised				£605m	£675m

Table 1.6 c	Lower Band	Upper Band	Current contr bution rate	c) steeper increase	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.5%	2.5%
Band 4a	£18,901	£21,000	6.5%	1.5%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.0%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.5%	2.5%
Band 5	£31,501	£42,000	6.8%	2.5%	2.5%
Band 6	£42,001	£78,700	7.2%	2.5%	2.5%
Band 7	£78,700	plus	7.5%	2.5%	2.5%
Total raised				£605m	£715m

1.6.4 Of course there is no way of telling which way members will opt and most will need some help and financial advice to make the correct decision but the above shows that we can design a scheme which meets the required target.

1.6.5 As there is a risk of members selecting the option that does not raise sufficient income the accrual rate for a steeper contribution increase pattern than 1.3 c) will mean the accrual that can be offered as an option will become very unattractive.

1.7 Stepping any changes

1.7.1 We understand that stepping any changes over the three year period may be acceptable. Administratively no changes will be very straightforward but stepping changes to the contribution patterns will be possible whereas stepping the reduction in accrual will not be feasible.

1.7.2 A possible spread of increase in step of 20 per cent/40 per cent/40 per cent will defer much of the change until the new scheme takes shape.

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

- Steeper stepping patterns for contributions than we have considered in section 1.3 which incur very high opt out risk, especially at middle to high salary bands. We have rejected this option due to opt out risk at all levels that may cascade throughout the workforce in general.

- Contribution patterns considered like those in section 1.3, which also have the appeal of being more easily phased in over a three year period.

- Contribution patterns with a suitable accrual reduction depending upon the upper contribution bands to ensure the required savings are met. As accrual reduction cannot be phased in it would need to be accepted that this change would only be practical in say year 2014.

1.8.2 Due to administration simplicity and the ability to step the costs it seem that an option like 1.3 c) may be most favourable.

1.8.3 However if options and choice for members are consider a more key factor then 1.6 b) would appear to offer a good solution as the accrual reduction is minimised.

1.8.4 Alternatively, option 1.6 c) meets the contribution increase limits applying to other public sector funds, whereby the increases at lower salary bands are restricted. It also offers flexibility and choice for members, perhaps being an advantage outweighing the simplicity of 1.3c).

Local Government Group

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

21 September 2011

Dear Eric,

Local Government Pension Scheme – Proposed increase in employee contributions

Thank you for your letter of 20 July 2011 inviting the Local Government Group to conduct discussions with the local government trade unions with a view to establishing a package of measures to secure short term savings by 2014/15, equivalent to a 3.2% increase in employee pension contribution rates.

The LG Group and the unions have held a series of constructive discussions over the last 8 weeks. We are committed to ensuring that the Local Government Pension Scheme is affordable and sustainable, and is fair to employees and taxpayers.

The LGPS is unique amongst the main public service pension schemes in that it is a funded scheme. This means that, as recognised in your letter of 20 July 2011, it is possible to come forward with a bespoke solution for the LGPS which delivers the required savings in ways not readily available to the other public service pension schemes. Unfortunately, despite the best efforts of both sides, it has not so far been possible to reach an agreement. However, we are still committed to continuing with those discussions.

During the discussions to date the employers' side has put forward a proposal which delivers the required level of savings, other than wholly through an increase in employee contributions, minimises the impact on the lower paid and offers choice to individuals. Our proposition is outlined further in this letter.

Background

Following your letter of 20 July 2011, the LG Group and the unions held their first joint meeting on 27 July 2011. This was followed by joint meetings on 11

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and 19 August during which a range of matters for consideration were discussed, including some suggested potential solutions outlined by the employers' side, and it was agreed that costings on a number of items should be obtained from our actuarial adviser.

Following an employers' side meeting on 31 August a further joint meeting was held on 2 September at which the unions put forward a view that changes already made to the scheme (e.g. the changes made in 2008 and the move to link the indexation of benefits to the rise in CPI rather than RPI), and the combined effects of no pay rises and a reduction in the number of active scheme members, meant that enough savings had already been made. The employers' side was of the view that these could not be used as offsets against the 3.2% (£900 million) savings target.

As no further progress was made at a joint meeting held on 9 September the LG Group sought clarification from yourself and the Chief Secretary to the Treasury on the questions of whether some additional time could be granted to try to reach a solution and whether any of the items identified by the unions could be used as offsets against the 3.2% savings target. It was agreed that the employers should seek a further joint meeting with the unions during week commencing 19 September with a view to making progress towards an agreement but that the matters identified in the paragraph above could not be used as offsets.

A joint meeting between the employers and unions was held on 21 September at which the proposed solution set out later in this letter was outlined by the employers' side.

Unfortunately, despite the efforts of both parties to the discussions, it has not so far proved possible to reach an agreement.

The employers' side is, however, of the view that the following offers a good solution to deliver the level of savings required (as an alternative to the level of increases in contributions that DCLG might otherwise come forward with).

Core elements of the employers' side proposal

In coming forward with our proposal we have sought to ensure that the level of savings required are met other than wholly through an increase in employee contributions, that the higher paid nevertheless have to pay some extra contributions if they wish to retain a 1/60th accrual rate, that the lower paid are protected, and that there is an element of choice for individuals.

Our proposal offers a bespoke solution for the LGPS and allows for the effects to be reflected in employer contribution rates from 1 April 2014 (following the 31 March 2013 valuation of the Funds).

For the purpose of our proposal we have used national salary data to estimate the possible savings and have assumed a £30bn payroll split as shown in the following table.

	Lower band	Upper band	Current rate	Actual salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,966,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	Plus	7.5%	£730,231,193
Total				£30,000,000,000

We appreciate that the pay bandings in the table above do not correlate to the current level of pay bandings but we have used them as we only have salary data broken down by reference to the pay bandings in the table. All salary levels quoted in this letter relate to full-time equivalent salary rates. Our proposal assumes that opt out rates do not increase beyond current levels.

<u>Core element 1</u>

We propose that the normal pension age in the LGPS is increased from 65 to 66 in respect of future service[1] from 1 April 2014. It is estimated that this would generate savings in the range of 1.0% to 1.5% of pensionable payroll although this will vary across Funds. We assume that GAD may value this on detailed national data on an average set of fund valuation assumptions and so, for the purposes of our proposal, we will assume that 1% of payroll will be saved by adopting this change. This equates to £300m per year based on the data shown above.

<u>Core element 2</u>

We propose that the balance of £600m should be delivered via an increase in the employee contribution rates. We would protect those earning less than £15,000 from any increase in contributions, raise the level of contributions for those earning between £15,000 and £21,000 by 1.5%, and increase the contributions of those earning over £21,00 by between 2.0% and 2.5%. This would generate around £605m and could be implemented on 1 April 2014 or, subject to core element 3, could be phased in over a three year period starting April 2012, as shown in the attached tables (assuming 20% of the increase is applied in 2012/13, another 40% in 2013/14, and the final 40% in 2014/15). The benefit accrual rate would remain 1/60th.

The above meets the objective of ensuring those earning less than £15,000 (the "lower paid" threshold) see no increase in their contributions and that those earning between £15,000 and £21,000 pay no more than an additional 1.5%. The spread of the size of increases for those earning above £21,000 is much narrower than under suggested tariff tables put forward to date by DCLG but this is to accommodate the option set out in core element 3.

[1] The normal pension age for service prior to April 2014 would remain age 65.

Core element 3

Given that, due to a range of other pressures on their income, an increase in contributions may be difficult for some employees to fund, we propose that employees be given the choice of a reduction in their accrual rate instead. This would mean that those earning above £15,000 would see no increase in their contribution rate, but a reduction in the accrual rate to in the region of 68ths. Those earning below £15,000 would see a corresponding reduction in their contribution rate if they wished to move to a reduced accrual rate (e.g. their contribution rate would reduce to 60/68ths of their current contribution rate if the reduced accrual rate was 68ths).

If all members simply chose to pay the contribution rates shown under core element 2, this would generate £605m. If all members chose, instead, to move to the lower accrual rate, this would generate in the order of £675m. As it is not possible to predict with any degree of certainty which members may choose to pay the contribution rates shown under core element 2 and which may choose, instead, a lower accrual rate, and in order to avoid selection against the fund, it is necessary to err on the side of caution when setting the level of the accrual rate (i.e. to a level around a 68ths accrual rate).

If core element 3 is taken forward then it would seem logical, given the timescales needed to communicate the option to scheme members, for members to make their election and for payroll and pensions administration systems to be amended, for any increase in contributions or reduction in the accrual rate not to be implemented until 1 April 2014. Furthermore, it would not appear to be a workable solution to offer choice from, say, 1 April 2013 i.e. the choice of a reduced accrual rate from 1 April 2013 or stepped increases in employee contributions over 2013/14 and 2014/15. Hence, our view is that offering choice means there should be a single implementation date (i.e. 1 April 2014).

Given the administrative complexity, and that we expect a new scheme to be in place from April 2015, a scheme member's election for the higher contribution rate or a reduced accrual rate would be a one off choice[2]. Members should not be allowed to change their option at some future time. If a member has multiple jobs they should have an election in respect of each job.

Overall impact of core elements 1, 2 and 3

The overall impact of core elements 1, 2 and 3 would be as follows:

i) the normal pension age in the LGPS would rise by 1 year for future service from 1 April 2014. This draws forward part of an element proposed for the new, post 2015, scheme (i.e. to link normal pension age to the rising State Pension Age)

[2] Unless the concept of a choice between contribution rate and accrual rate carries forward into the design of a new look LGPS post March 2015.

ii) those whose full-time equivalent salary is above the "lower paid" threshold of £15,000 will see their contributions rise if they wish to retain the current $1/60^{th}$ accrual rate (although the rise will be limited for those whose salary is between £15,000 and £21,000). Alternatively, they can continue to pay the present contribution rate but their accrual rate for future service will drop.

iii) those whose full-time equivalent salary is below the "lower paid" threshold of £15,000 will retain the current $1/60^{th}$ accrual rate for the same contribution rate as they currently pay. Alternatively, they can choose the lower accrual rate for future service and, in return, see a reduction in their contribution rate.

Variations

Other variations on the accrual and contribution rates set out above are possible. Samples are set out in the attached document. These are based on national data available to our actuarial adviser on a summary basis and the proposals have been costed on what we consider a reasonable average funding approach.

Why are our proposals a good solution?

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)
- encourage the low paid to stay in the scheme and reduce opt out rates
- give employees choice
- ensure that those employees earning above the "lower paid" threshold who want to keep their current accrual rate will have to pay more to retain that accrual rate
- reduce the risk of industrial action

The fact that there is an element of choice in our proposed solution enables employees to make a decision in the light of their own personal circumstances. Giving choice will have the benefit of minimising opt out rates i.e. those concerned about the level of their take home pay can choose the lower accrual rate option instead and, when coupled with the reduction in the contribution rate for those earning less than the "lower paid" threshold, it has the added advantage that it might encourage more of the lower paid to join / stay in the scheme (assuming it is in their interests to do so). Reducing opt out rates is a crucial factor for the funded LGPS which needs, for cash flow and investment profile / fund maturation reasons, to maintain a strong level of active membership.

Other elements for possible inclusion in a package of measures

Other elements which we believe should form part of the package are:

1) adjust the current actuarial reduction factors to a cost neutral level (as, based on current life expectancy levels, we believe they are currently overly penal at present)
2) move to a 2 year vesting period (with existing active members who leave with 3 or more months but less than 2 years membership having the choice of a deferred benefit or a refund of contributions). This would generate minimal savings on the employer contribution rate, of around 0.02%, but there would be considerable administrative advantages and savings on administration costs. The LGPS in England and Wales is the only public service pension scheme with a 3 month vesting period and the DWP has recently concluded that it will not reduce the compulsory vesting period for defined benefit schemes to below the current level of 2 years.

Councillor members

Our proposals only relate to employees who are active members of the Local Government Pension Scheme (LGPS). They do not relate to councillors who are already in the Career Average Revalued Earnings (CARE) section of the LGPS. Whether any changes to the CARE scheme for councillors are required is a matter for the government to consider.

Conclusion

It is unfortunate that, despite the efforts of both the employer and trade union negotiators, it has not so far proved possible to reach agreement on a joint proposal to put to you. However, we hope that the suggestions we have put forward in this letter will be of help to you when considering how best to take this matter forward.

Yours sincerely

Chairman, Local Government Association

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 NOVEMBER 2011

SUBJECT:	**SECURITIES LENDING:** **INCREASED FLEXIBILITY ON PERMITTED COLLATERAL**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request changes to the types of collateral that the global custodian is permitted to hold as part of the securities lending programme. The specific changes are to permit the holding of cash and equity securities, which is projected to increase the income received by 15%-20%

2.0 RECOMMENDATION

2.1 That Members approve the relaxation of the guidelines for allowable collateral in the securities lending programme operated by State Street to include cash and international equities.

3.0 REASON FOR RECOMMENDATION

3.1 The reason for the recommendation is to generate additional projected income for MPF of £113,000-£150,000 per annum.

4.0 BACKGROUND AND KEY ISSUES

4.1 MPF has had a securities lending programme since 2002 operated by the global custodian, presently State Street. This programme has generated significant income whilst managing risk appropriately.

4.2 The income for the last 12 months has been £754,000; if the guidelines were amended to permit the use of cash collateral and international equities it is estimated that revenue could increase by 15-20%.

4.3 Attached to this report as an appendix is a training guide to securities lending. The key issue with collateral is that it is posted by institutions borrowing securities and is the key control against risk of default by borrowers.

4.4 Following regulatory changes and changes in the market place resulting in more demand for loans with cash collateral and international equity collateral, State Street has requested a relaxation of guidelines to facilitate this. At present MPF accepts collateral in the form of G10 Sovereign Debt Bonds.

4.5 The cash collateral would be posted in The SSgA Liquidity PLC, which is a AAA rated Irish UCIT compliant money market fund and is a member of the Institutional Money Market Funds Association. This has a highly diversified exposure from a credit perspective and is managed with a view to preserving

5.0 RELEVANT RISKS

5.1 The key risks associated with collateral held in securities lending contracts is that the counterparty fails to deliver the lent security leading to retention of collateral and that the collateral held is insufficient to cover the value of the lent security. There is also a risk of suffering a loss on the reinvestment of cash collateral.

5.2 There are two key of controls to mitigate this risk.

- Firstly there are limits on which counterparties are allowed to borrow stocks and their level of exposure. State Street controls this with a high level of due diligence.

- Secondly the level of collateral posted is calculated daily and includes a margin of 2%-5% over the amount of securities lent.

- The pooled fund proposed by State Street for cash collateral investment diversifies and controls risk.

5.3 There is a small but appropriate and carefully managed increase in risk in the proposed changes to allowable collateral. This increase is considered appropriate given the mitigating controls

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 The approval of this report is projected to generate an additional £113,000-£150,000 per annum.

9.2 There are no implications for IT staffing or assets 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 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no carbon usage implications nor any other relevant environmental issues arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no planning or community safety implications arising from this report.

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APPENDICES

An introductory guide to securities lending is attached as an appendix to this report.

REFERENCE MATERIAL

None used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee **Statement of Investment Principles**	**16 November 2010**

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SECURITIES LENDING: AN INTRODUCTORY GUIDE

ABI Association of British Insurers

bba The voice of banking & financial services

ICMA EUROPEANREPOCOUNCIL

ISLA INTERNATIONAL SECURITIES LENDING ASSOCIATION

Investment Management Association ima

Local Authority Pension Fund Forum

NAPF Securing the future of pensions

SEPTEMBER 2010

This guide is a simple introduction to securities lending for anyone seeking a basic understanding of it (such as pension fund trustees). Other papers have been produced for those engaged in the day-to-day management of securities lending activities and a bibliography can be found at the end of this guide.

The guide was produced and endorsed by the Association of British Insurers, the British Bankers Association, the ICMA European Repo Council, the Investment Management Association, the International Securities Lending Association, Local Authority Pension Fund Forum, the National Association of Pension Funds and Thomas Murray. The FSA, Bank of England, HM Treasury and The Pensions Regulator also supported the development of the guide.

More information can also be found in the Lender Checklist and Agent Disclosure Code papers that accompany this guide.

WHAT IS SECURITIES LENDING?

Securities lending involves a transfer* of securities (such as shares or bonds) to a third party (the borrower), who will give the lender collateral in the form of shares, bonds or cash.

The borrower pays the lender a fee each month for the loan and is contractually obliged to return the securities on demand within the standard market settlement period (e.g. three days for UK equities). The borrower will also pass over to the lender any dividends/interest payments and corporate actions that may arise.

In essence, the lender will retain the key rights they would have had if they had not lent the securities, except they will need to make special arrangements if they want to vote on the shares. Securities lending does give rise to certain risks however, and these need to be considered.

WHY IS THERE DEMAND TO BORROW SECURITIES?

Investment banks, brokers and market makers borrow securities for a variety of reasons, including:

- to ensure settlement of trades can take place; and
- to facilitate market making and other trading activities, such as hedging and short selling.

Securities lending plays an important role in providing liquidity for the market by facilitating price formation and high settlement success helping to ensure that the financial markets operate efficiently.

Because demand to borrow exists, securities lending can be used by certain investors as a way of deriving additional income from their investment portfolios.

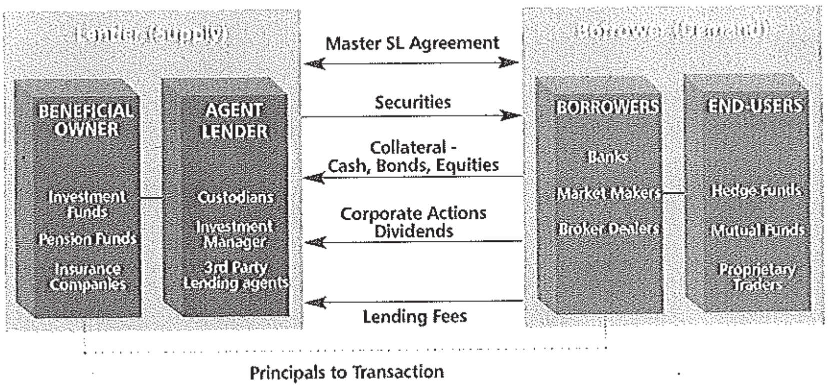
** Legally a securities loan is the transfer of title against an irrevocable undertaking to return equivalent securities. This means that registered securities such as shares, will be transferred out of the lender's name into that of the borrower and registered back when they are returned.*

WHO LENDS AND WHO BORROWS?

Lenders are typically large scale investors, such as pension funds, insurance companies, collective investment schemes and sovereign wealth funds. These investors would normally employ an agent (such as a custodian) to arrange, manage and report on the lending activity.

Borrowers are typically large financial institutions, such as investment banks, market makers and broker dealers. Hedge funds are among the largest borrowers of securities, but they will borrow through investment banks or broker dealers rather than directly from the investors.

Who Lends and Who Borrows



RISKS

As with all investment strategies, lending securities involves risks. The main risk is that the borrower becomes insolvent and the value of the collateral falls below the cost of replacing the securities that have been lent.

Table 1 describes the main risks involved when lending securities and how these risks can be managed. Where a lender uses an agent, it is the agent that manages these risks on behalf of the lender. The agent may offer some additional risk protections by providing the lender with a type of insurance (often called an indemnity). The terms of such insurance or indemnity can vary and it is important that the lender has a clear understanding of what risks are covered. Regardless of whether an indemnity is in place it is also important that the lender understands the risk issues listed below and discusses them with their agent. Lenders should be aware that whilst the lending agreement will usually strive to align the incentives of the lender and the agent, the activities of the agent should be closely monitored and agreements revisited at an appropriate frequency. Securities lending programs can usually be tailored to suit a lender's own risk tolerances.

Table 1

Risk	How to manage it
Borrower risk The risk that the borrower defaults on the loan (for example, the borrower becomes insolvent and is unable to return the securities).	The lender must consider who they are willing to lend to and how much they are willing to lend.
Collateral risk The risk that the value of the collateral falls below the replacement cost of the securities that are lent. If this happens AND the borrower defaults on the loan, then the lender will suffer a loss equal to the difference between the two.	Establishing rules governing collateral can be complex and lenders are advised to discuss this with their agent or adviser. A lender's collateral policy will affect the returns that are achievable (the riskier the policy, the higher the return). The main issues to be considered are: • **What is acceptable as collateral?** Lenders must consider what types of collateral they are willing to accept. • **How much of any one type of collateral should be accepted?** Lenders should place limits on the amount of any one bond or share that is received as collateral to avoid ending up with a concentration of one type of collateral that might prove more difficult to sell. • **What level of over-collateralisation is required?** It is commonplace for a lender to require collateral that is worth more than the value of the loaned securities. This excess amount is known as the 'margin' and the lender needs to decide what level of margin is required. In setting these policies, the lender and agent should take into account technical factors such as liquidity (ie the ease with which the collateral may be sold at a fair value), and price correlations between the loans and collateral (ie whether the price of the collateral is generally expected to move in line with the price of the lent securities).

Risk	How to manage it
Cash collateral risk The risk that the lender suffers a loss on the re-investment of the cash collateral.	Where a lender takes cash collateral, the cash must be reinvested to generate a return. The lender must ensure that the investment guidelines governing the investment of cash collateral are fully understood and provide an acceptable level of risk and return. Lenders should be aware of the liquidity risk inherent in the investment of cash collateral should investments need to be sold at short notice to return the collateral. This is likely to be a matter for consideration by someone with knowledge and responsibility for portfolio management decisions.
Intraday settlement risk The risk that the securities being lent are delivered to the borrower before the collateral is received.	Lenders should consider whether they wish to receive their collateral a day before the loan settles to avoid this risk. At the end of the loan, lenders should ensure that their shares are returned before or at the same time as collateral is released back to the borrower.
Operational risk This covers day-to-day operational risk matters, such as: • What happens if shares that are sold are recalled late? • What happens if the lender or its agent fails to claim for a dividend or other entitlement?	It is important that the lender understands if the agent takes responsibility for operational risks and in what circumstances, if any, they do not. If the lender is undertaking the lending activity directly then robust procedures need to be developed to protect against operational risks.
Legal risk The risk that the lender's legal agreement does not provide full protection in the event that the borrower defaults.	Lenders should review their legal agreements (typically a securities lending authorisation agreement signed with their agent, and the agreement that the agent signs with the borrower). The latter should conform to commonly used market standard documentation. In case of any doubt it is recommended that the lender seeks professional advice.
Other risks Consideration should also be given to other non-financial risks, such as ethical or reputational risks which can sometimes arise as a result of investing activity.	Lenders should consider whether lending securities is consistent with their policies and investment objectives.

VOTING OF SHARES

You cannot vote if your securities are out on loan. However, your securities lending does not need to interfere with your corporate governance activity as shares may be recalled from loan if you wish to vote.

You should consider under what circumstances you may wish to recall securities to vote (or prevent certain securities that you wish to vote on being lent in the first place) and ensure that all parties (such as your fund manager and agent) are aware of your policies. Normally securities can be recalled at any time but it is essential that timescales for recalls are understood and documented.

POOLED FUNDS

Many pooled funds vehicles, such as unit trusts, OIECS and UCITS, may engage in securities lending of the securities held within the funds. Investors in such funds cannot directly influence the securities lending arrangements, so they should make sure they are happy with them before investing. Information about the securities lending activity should be available from the relevant fund manager.

SECURITIES LENDING IN PRACTICE

Investors who lend securities usually do so through their custodian, who acts as an agent. It is also possible to use a third party agent who will arrange loans (within agreed parameters) and instruct the custodian about securities deliveries, receipts and collateral movements. Only the very largest funds conduct their own lending.

All securities lending arrangements are underpinned by market standard legal agreements (such as the Global Master Securities Lending Agreement or GMSLA). As well as this legal agreement, the lender will enter into an operating agreement with their agent, that may complement the custody agreement and set out all the terms of the lending programme. The agent will then enter into a market standard agreement on the lender's behalf with the borrowers. Once the agreements are in place, the agent will be responsible for all day-to-day activities and should provide the lender with information tailored to their requirements. Properly structured, the securities lending programme should not interfere with day-to-day fund management.

As with any investment activity, investors should be sure that they have made adequate provision for understanding and complying with legal, regulatory, tax, accounting and operational requirements.

Robust internal procedures should be established and regularly reviewed that ensure all relevant parts of the organisation understand their responsibilities.

A Checklist for Lenders exists for investors who are considering entering into securities lending arrangements and details of this are included in the useful references at the end of this guide.

FREQUENTLY ASKED QUESTIONS

As an investor, what will I be paid and when?
You will normally be paid monthly for the securities you have lent. The size and composition of your portfolio, together with the frequency of trading may all influence the ability of your securities to be lent out – demand may also depend on market factors. You should get an estimate of what the annual income is likely to be after any charges applied by your custodian/agent.

What happens if the value of the collateral goes down?
The value of your securities on loan and the value of the collateral is compared on a daily basis and an adjustment is made to ensure that you achieve your collateral management objectives. Your agent will do this for you.

What happens if I sell securities that are out on loan?
As long as you tell your agent within the agreed timescale, the securities should be returned in time to settle the sale.

How will I know what securities are on loan?
Your agent will provide you on request with full details at an agreed frequency (which can be daily), usually electronically. You will also receive a monthly statement of your earnings.

What do I do if I want to vote?
You cannot vote on shares that are out on loan. You must therefore recall them in time to be registered to vote. Ensure that your voting policies are understood by all parties and that you are aware of and comply with your agent's cut-off times for instructions.

What happens if the borrower goes bust?
The legal agreement allows you to instruct your agent to realise the collateral immediately to enable you to buy back the stock you have lent.

What is cash collateral?
Lenders may accept cash in an agreed currency as collateral for their loans. Cash collateral is however quite different from non-cash collateral (such as shares or government bonds) as the lender must pay the borrower interest on the cash collateral for the period it is held. If you take cash collateral you will need to invest the cash to generate enough interest to repay the borrower. In most cases your agent will manage this process (known as cash collateral reinvestment) for you. It is essential that you understand and agree the risks of these investments.

How do I get my dividends?
The borrower will pay you the same amount as you would have received, if the stock had not been lent. You should establish whether this will be on the due date or when received from borrower. In the UK, special rules govern the tax treatment of such payments (to ensure they are treated similarly to normal dividends). Lenders are advised to take tax advice on this before commencing lending.

USEFUL REFERENCES

Documents that accompany this paper:
Agent Lender Disclosure Code
Checklist for Lenders
www.bankofengland.co.uk/markets/gilts/slrc.htm

Further Reading:
Securities Borrowing and Lending Code of Guidance
www.bankofengland.co.uk/markets/gilts/stockborrowing.pdf
Introduction to Securities Lending
Securities Lending: Your Questions Answered
Securities Lending and Short Selling
Securities Lending and Corporate Governance
www.isla.co.uk/dynamic.aspx?id=62
Global Master Securities Lending Agreement (GMSLA 2010)
www.isla.co.uk/uploadedFiles/Member_Area/General_Library/GMSLA%202010%20Final(1).pdf
FSA Conduct of Business Sourcebook
http://fsahandbook.info/FSA/html/handbook/COBS

Relevant websites:
Securities Lending and Repo Committee
www.bankofengland.co.uk/markets/gilts/slrc.htm
Financial Services Authority
www.fsa.gov.uk
HM Treasury
www.hm-treasury.gov.uk
The Pensions Regulator
www.thepensionsregulator.gov.uk
Association of British Insurers
www.abi.org.uk
British Bankers Association
www.bba.org.uk
ICMA European Repo Council
www.icmagroup.org/about1/international1/european.aspx
International Securities Lending Association
www.isla.co.uk
Investment Management Association
www.investmentuk.org.uk
Local Authority Pension Fund Forum
www.lapfforum.org
National Association of Pension Funds
www.napf.co.uk
Thomas Murray
www.thomasmurray.com

Glossary of relevant terms:
A full glossary of terms used in securities lending can be found in the SLRC Code of Guidance.
www.bankofengland.co.uk/markets/gilts/stockborrowing.pdf

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 NOVEMBER 2011

SUBJECT:	**INVESTMENT MONITORING WORKING PARTY: PROPOSED CHANGES TO FORMAT AND REPORTING**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request some changes to the way in which the Investment Monitoring Working Party monitors investments. The report also invites Members not present at recent training sessions or IMWP to give feedback on proposals and to suggest changes.

2.0 RECOMMENDATIONS

2.1 That Members approve the proposed changes to the way in which the IMWP works. Officers will take note of any suggested amendments and implement them for future IMWP meetings.

2.2 This recommendation may necessitate a review of some key documents such as SIP, compliance manual, and monitoring policy.

3.0 REASON FOR RECOMMENDATIONS

3.1 The reason for the recommendations is to improve the monitoring framework for the investments of MPF and make best use of the limited time of Members. The changes will ensure that MPF complies with LGPS regulations and with recommended best practice.

4.0 BACKGROUND AND KEY ISSUES

4.1 The Statement of Investment Principles sets out a framework for effective decision making for MPF. Included in this is the role of the IMWP as detailed below.

The Pensions Committee takes strategic decisions on asset allocation, investment manager selection and other high-level investment policy matters and delegates tactical asset allocation and investment monitoring through the IMWP. The IMWP is a deliberative body, acting as a forum where investment issues can be discussed in depth, with the power to make recommendations to Committee. The Director of Finance of Wirral Council (Section 151 Officer) is delegated to implement Committee policy and manage MPF leading a well qualified and experienced internal team.

4.2 MPF recently appointed new strategic consultants AON Hewitt who provided a training session on investment strategy and governance on 20 October 2011. From their presentation and the discussion that followed, a consensus on a number of issues emerged.

- The key issue for investments is to manage the funding position which requires managing the assets with regard to the liabilities. The liabilities are sensitive to real yields. Asset allocation should have regard to how assets behave in terms of the additional return and importantly the level of variance in returns away from the risk free level of return.

- An investment strategy that generates high levels of expected return also generates higher risk and creates funding level volatility and potentially contribution rate volatility.

- The current asset allocation mix has a high level of predicted out-performance but is more diversified in its sources of return than the average pension fund (i.e. it has a higher than average allocation to alternative assets and less equities).

- The key decisions for investments, in descending order, are strategic asset allocation, tactical asset allocation and investment manager issues.

- Whilst MPF has many areas of good practice in governance and is in a good position relative to its peers the focus has tended to be on manager issues at the expense of strategic and tactical asset allocation.

- There are huge demands on Members time and the amount of time the Committee has to focus on investments is limited.

- The level of information and details presented to Members in the IMWP packs at present is high.

- There have been low levels of attendance at IMWP and training days.

4.3 A broad consensus emerged on some proposed changes to the way in which the IMWP works

- The present number of meetings 6 IMWP plus two training days should be reduced to 6 IMWP with the meeting in June to review annual performance by WM plus reports from internal investment management and 3 other quarterly meetings to review performance and reports from external managers. The 2 IMWP meetings not receiving quarterly reports should be taken up by training and strategic considerations.

- All of the quarterly IMWP meetings will have a review of risk and liabilities and tactical asset allocation presented by the consultant.

- In order to free up time for the points above managers should be allocated less time to speak. Consideration should be give to reducing the frequency of manager attendance and targeting by exception. This might mean that managers performing well will come less than once a year and poorly performing managers more than once a year. There was less consensus on this issue.

- The content of the IMWP packs will be refocussed to the present executive summary with an added report on liabilities plus reports for managers attending that meeting. The current pack with all the reports on individual managers will continue to be produced for the Director of Finance to ensure that officer led monitoring continues to be effective.

- The minutes of IMWP presented to Pensions Committee will in future include a summary of funding position, investment performance, asset allocation performance and any decisions taken. It is also recommended that the timing of the quarterly IMWP meetings be such that there is a Pensions Committee shortly after each IMWP.

- The tolerance bands controlling asset allocation variations should be widened and delegation to officers be reviewed to ensure implementation of decisions can be undertaken in an effective and timely way.

- Aon Hewitt will prepare a short, anonymous questionnaire for Members to complete to assist them in delivering training in appropriate areas.

5.0 RELEVANT RISKS

5.1 There are no risks arising directly from this report. The purpose of the governance arrangements of MPF is to control risk.

6.0 OTHER OPTIONS CONSIDERED

6.1 Members are asked to make suggestions for other improvements to the way in which the IMWP works

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 for arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no carbon usage implications nor any other relevant environmental issues arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no planning or community safety implications arising from this report.

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APPENDICES

There are no appendices

REFERENCE MATERIAL

None used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee **Statement of Investment Principles**	**16 November 2010**

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 NOVEMBER 2011

SUBJECT:	**AUDIT COMMISSION FINAL ANNUAL GOVERNANCE REPORT (AGR)**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the final Annual Governance Report (AGR) from the Audit Commission as approved at Audit and Risk Management Committee on 28 September 2011.

2.0 RECOMMENDATION

2.1 That Members note the final AGR plus the supplement and the audit opinion which are attached as an appendix to this report.

3.0 REASON FOR RECOMMENDATION

3.1 The purpose of the recommendation and report is to provide this Committee with the final conclusion of the audit process for 2010/11.

4.0 BACKGROUND AND KEY ISSUES

4.1 Pensions Committee approved the Accounts and draft AGR on 19 September 2011. At the time of the meeting the audit was not complete and the District Auditor stated that there may need to be a report back to Pensions Committee.

4.2 There were no revisions to the financial statements in the final stages of the audit process post Pensions Committee but there were changes to the AGR and a supplement was presented to the Audit and Risk Management Committee.

4.3 The audit process was completed with the release of the audit opinion on 30 September 2011. This opinion included a last minute revision to refer to the fact that the governance statement for MPF was not included in the annual report, but is available from the Pension Fund. This is an approach adopted by a number of other local authority pension funds and has been adopted by MPF in previous years.

5.0 RELEVANT RISKS

5.1 Not relevant for 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

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APPENDICES

The final AGR plus the supplement and the audit opinion are attached as an appendix to this report.

REFERENCE MATERIAL

None used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee : **Accounts 2010/11** **Audit Commission Annual Governance Statement**	 **19 September 2011**
Audit and Risk Management Committee **Pension Fund Accounts 2010/11** **Audit Commission Annual Governance Statement**	**28 September 2011**

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Annual Governance Report supplement
Merseyside Pension Fund
Audit 2010/11
28 September 2011

1 This note updates members of the Audit and Risk Management Committee at its meeting on 28 September 2011

2 My Annual Governance Report was presented to the Pensions Committee on 19 September. My summary on page 3 remains valid and I propose to give my opinion by 30 September 2011.

Financial statements	Results
Unqualified audit opinion	**Yes**
Pre-audit financial statements free from material error	**No**
Post-audit financial statements free from material error	**Yes**
Weakness in internal control	**No**

3 Page 5 of the report set out a number of issues that were still outstanding. I have updated the position below:

- Review of the final set of accounts including all the amendments agreed on audit. **Now reviewed and agreed.**
- Review of the Annual Report. In progress. **Latest version received on 28 September 2011 and I will conclude my review once final checks have been made. Subject to our final review, I plan to issue an unqualified opinion on the annual report.**
- Review of the amended statements. **Now reviewed and agreed.**
- Completion of elements of my testing, in particular on:
  - Contributions, and
  - Investments. **Now completed.**

4 My testing identified further non material errors which I bring to your attention. These have been amended in the final set of accounts:

Enhancement to note 15, breaking down the Internally Managed Holdings balance.
Removal of Contingent Assets note.
Understatement of Pooled Investment Vehicles of £13,773,000. NB: We reported this understatement in our AGR as £6,700,000 (page 6). This figure has since increased.

5 I also identified some further changes which have not been amended in these statements, but will be brought forward to 2011/12. These changes are immaterial but I bring them to your attention to aid you in fulfilling your governance responsibilities:

Enhancement to accounting policies to include policies on: – Accruals; – Material derivative classes; – Pooled investment vehicles; – Futures contracts; and – Foreign exchange contracts.
Enhancement to related party transaction note to include debtor and creditor balances between Wirral MBC and Merseyside Pension Fund. **I am also asking for a specific representation regarding three declaration of interest forms which were not obtained.**
Note 7 Financial Instruments incorrectly includes cash of £807,000.
Pooled Investment Vehicles (Infrastructure assets) have been understated by £348,481.

6 I have updated appendix 2 to the report (adjusted errors) to reflect the final position.

Update to Appendix 2 to Merseyside Pension Funds Annual Governance Report 2010/11

		Fund account		Net assets statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Transitional IFRS net asset statement omitted	Include net assets statement as at 1 April 2009				
Misanalysis of investments	£139m investment in Amundi Global Emerging Markets and £134m investment in M&G Global Emerging Markets categorised as equity investments rather than pooled investments			273,000	273,000
10,000 units in L'Oreal Prime de Fidelité omitted from net assets statement	Increase value of investments in net assets statement and increase change in market value of investments in funds account		728	728	
Understatement of Pooled Investment Vehicles	Understatement of Pooled Investment Vehicles (Private Equity)		13,773	13,773	
Other disclosure errors	■ a small number of typographic errors and mis-castings ■ gross up £4m Forward Euro contracts and £4m associated liabilities in investments disclosure note ■ £0.5m transitional fund				

manager balance categorised as equity rather than cash

- The contributions note does not disclose that an element of regular employer contributions represents deficit funding
- Enhancement to note 15, breaking down the Internally Managed Holdings balance.
- Removal of Contingent Assets note.

Annual governance report

Merseyside Pension Fund

Audit 2010/11

audit commission

Contents

Traffic lights
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit of the accounts of Merseyside Pension Fund (the Pension Fund) which is substantially complete.

	Our findings
Audit opinion	

Audit opinion and financial statements

- Subject to satisfactory completion of outstanding matters I plan to issue an unqualified audit opinion on the accounts of Merseyside Pension Fund.
- I identified two material errors in the accounts, the omission of a Net Assets Statement as at 1 April 2009, and a mis-classification of £273m pooled investments as equity. The Pension Fund has agreed to amend the accounts for both of these items.
- I identified a small number of other disclosure errors and one non-trivial accounting error, all of which the Pension Fund has agreed to amend.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.
I ask you to confirm to me	**I ask the Pension Fund Committee to:** ■ consider the matters raised in this report before recommending approval of the Pension Fund accounts to Wirral Borough Council's (the Council's) Audit and Risk Management Committee (the ARMC). ■ take note of the adjustments to the Pension Fund's accounts which are set out in this report (Appendix 2); ■ recommend the approval of the letter of representation (Appendix 3) to the ARMC on behalf of the Pension Fund before I issue my opinion and conclusion; and ■ recommend the ARMC approve management's response to the proposed action plan (Appendix 4). **I ask the ARMC to:** ■ consider the matters raised in this report and the recommendations of the Pension Committee before it: – approves the Council's financial statements; – approves the letter of representation (Appendix 3) before I issue my opinion and conclusion; and – agrees a response to the proposed action plan (Appendix 4)..

Financial statements

The Pension Fund's financial statements are an important means by which the Council accounts for its stewardship of the funds. The members of the ARMC have final responsibility for these statements. It is important that the members of the ARMC consider my findings before adopting the Council's financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Matters outstanding are:

- I have not received a final set of accounts including all the amendments agreed on audit
- I have yet to complete elements of my testing, in particular on:
  - Contributions, and
  - Investments

Appendix 1 contains a copy of my draft report for inclusion in the Council's Statement of Accounts.

I received the Annual Report for the Pension Fund on 1 September. If there are no material inconsistencies with the financial statements governance statement and the Governance Statement reflects compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance, I will issue an unqualified opinion. Appendix 1a contains a copy of my draft report for inclusion in the Pension Fund's Annual Report.

Errors in the financial statements

I identified two material errors in the Pension Fund's accounts. The first is that, in common with most local government pension funds, the accounts did not include a Net Assets Statement as at 1 April 2009. It is a requirement of IFRS 1 First time adoption of IFRS that bodies include a comparative Net Assets Statement at the date of transition to IFRS. The second is a misclassification of two investments totalling £273m as equity rather than pooled investments.

I also identified one non-material error in the value of investments and a small number of other disclosure errors.

The Pension Fund management has agreed to amend the accounts for all of the errors I identified.

For details of all of the amended errors, see Appendix 2.

The Pension Fund management are also amending the draft accounts to increase the value of investments by £6.7m. In accordance with its accounting policy, the Pension Fund had used the latest audited accounts (as at 30 September 2010) to value an unquoted investment. However, by the time of our audit, accounts as at 31 December 2010 were available for the investment and we identified the movement in valuation.

Recommendation

	Recommendation
R1	Ensure that any changes to the investment ledger after it has been reconciled with the general ledger are also reflected in the accounts.
R2	Review the latest available information on unquoted investments as part of a formal process considering potential adjusting post balance sheet events between the preparation and members' approval of the accounts.

Specific risks and areas of judgement

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. Triennial Actuarial Valuation Review The Fund has completed a Triennial Actuarial Valuation Review reflecting its position at 31 March 2010. Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund. There are risks of increased deficits leading to additional costs from increased employer contributions.	An actuarial valuation is attached to the Pension Fund's accounts. No employer has defaulted on their contributions in the year.
2. Move to 'OpenAir' system The Fund replaced the system used to monitor and control internally managed investments, 'Shareholder', with the 'OpenAir' system in 2010/11. There is a risk that the balances will not be accurately transferred between systems and a risk that effective controls are not in place in the new system.	Internal Audit reconciled the closing book cost figures from 'Shareholder' to the opening book cost figures within 'OpenAir'. They did not identify any discrepancies.

Key audit risk	Finding
3. Impact of voluntary redundancy I am aware that Wirral Council is undergoing a voluntary redundancy process whereby a significant number of employees will leave in 2010/11. This may affect the capacity of the finance team to deliver materially correct statements within agreed timescales.	The Pension Fund provided its accounts for audit within the statutory deadline on 28 June.
4 First time application of International Financial Reporting Standards From 2010/11 the Pension Fund is required to adopt the International Financial Reporting Standards (IFRS) Code. The Code sets out the proper accounting practices that bodies must follow and requires some additional disclosures for 2010/11.	We found one material error in the Pension Funds application of IFRS – in common with most local government pension funds the Fund omitted a transitional Net Asset Statement.
5 Financial pressures – contributing employers We are aware that contributing bodies to the pension fund are under financial pressure and in many cases are offering voluntary early retirement, voluntary redundancy and possibly may need to make compulsory redundancies in the near future. This may place additional workload on the Pensions team in dealing with the large volume of severance arrangements	We did not find evidence of any backlog in pensions administration as a result of an increase in workload from increased numbers of severance cases in contributing bodies.
6 Reconciliations between AXISe and the General Ledger The Pension Fund did not carry out reconciliations between the values in AXISe Pensions Payroll and membership administration systems to those in the General Ledger in 2009/10. These are essential procedures which are intended to give the Pension Fund assurance that transactions in the fund account are correctly stated as well as providing controls assurance over receipts and payments in key areas.	The Pension Fund has reconciled lump sums in AXISe and the ledger. We have asked for evidence of a reconciliation of other transactions.
7 Timeliness of contributions Regulation 42(2) of the Local Government Pension Scheme Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Our review of contributions in 2009/10 found that whilst most bodies pay on time, some smaller bodies missed these deadlines regularly, breaching the regulations.	We have asked for evidence of the timeliness of contributions from employer authorities.

Key audit risk	Finding
8 Valuation of unquoted investments The Pensions Statement of Recommended Practice (SORP) requires the valuation of investments to be at market value or where the value is not readily ascertainable, at the Fund's estimate of 'fair value'. The Pension Fund's accounting policies describe the methodology used for these investments as 'at manager's valuation' and the process followed for both alternatives and private equity relies on valuations reports provided by the investment managers and/or administrators. It is essential that the preparers of the pension fund financial statements are satisfied that the valuations provided by these specialists comply with the requirements of the SORP. Guidance issued by Pensions Research Advisory Group (PRAG) provides a framework of due diligence for preparers of Pension Fund statements	The Pension Fund developed a due diligence questionnaire based on the PRAG framework. It has used this when considering the valuation of investments.
9 Contract with Capital Dynamics The Pension Fund's private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review in 2009/10 of the contract identified that the contract is out of date and does not specify the valuation work.	A new contract with Capital Dynamics Ltd was signed in June 2011.
10 Compensatory added years The Pension Fund's receipts and payments were overstated by £12m in 2009/10 due to the incorrect inclusion of compensatory added years (CAYs). CAYs are awarded under the Local Government Regulations 2000 and therefore fall outside of the LGPS. The LGPS (Misc) Regulations 2009 now permit employers to convert CAYs into pension service, however there has to be a resolution by the employing authority to do this conversion by 31 March 2012.	The Pension Fund managers have confirmed that no employing authority has made a resolution to convert CAYs into pension service. (I have asked that members also confirm this in the letter of representation). The Pension Fund has therefore excluded CAYS from its income and expenditure in 2010/11. It has also amended the comparative figures for 2009/10.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control

I only report those weaknesses I identify during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

I have only one matter to report to you:

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
1. Disclosure of pooled and internally managed investments The accounts initially disclosed internally managed investment balances in aggregate only. Pooled investment vehicles were also disclosed in aggregate only. Whilst this disclosure does comply with the SORP, in my opinion this does not give the reader of the accounts adequate information on the nature of these investments.	The Pension Fund management agreed that the information could be enhanced and agreed to change the disclosure to be more useful to the user of the accounts.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have included a draft at Appendix 4

Appendix 1 – Draft independent auditor's report to the members of Wirral Borough Council[i]

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

i For inclusion in the Council's Statement of Accounts

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword [*and the annual report*][i] to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword [*and the content of the Annual Report*][ii] for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

i I will insert these words if there are no matters arising from my review of the Council's annual report.

ii I will insert these words if I have no matters arising from my review of the Council's annual report.

Appendix 1a – Draft independent auditor's report for inclusion in Pension Fund Annual Report

Draft independent auditor's report to the members of Wirral Borough Council

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Appendix 2 – Amendments to financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Fund account		Net assets statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Transitional IFRS net asset statement omitted	Include net assets statement as at 1 April 2009				
Misanalysis of investments	£139m investment in Amundi Global Emerging Markets and £134m investment in M&G Global Emerging Markets categorised as equity investments rather than pooled investments				
10,000 units in L'Oreal Prime de Fidelité omitted from net assets statement	Increase value of investments in net assets statement and increase change in market value of investments in funds account		728	728	

		Fund account	Net assets statement
Other disclosure errors	■ a small number of typographic errors and mis-castings ■ gross up £4m Forward Euro contracts and £4m associated liabilities in investments disclosure note ■ £0.5m transitional fund manager balance categorised as equity rather than cash ■ The contributions note does not disclose that an element of regular employer contributions represents deficit funding		

Appendix 3 – Letter of representation

Merseyside Pension Fund - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of the Merseyside Pension Fund (the Fund), the following representations given to you in connection with your audit of the Fund's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Fund for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Fund have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Compensatory added years (CAYs)

No employing authority has made a resolution to convert CAYs into pension service.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	Ensure that any changes to the investment ledger after it has been reconciled with the general ledger are also reflected in the accounts.	3	Group Accountant	Yes	A review of information flows has already begun.	June 2012
6	Review the latest available information on unquoted investments as part of a formal process considering potential adjusting post balance sheet events between the preparation and members' approval of the accounts.	3	Group Accountant	Yes		Sept 2012

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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September 2011

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

Agenda Item 9

Document is Restricted

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