Public Document Pack

Pensions Committee

Date:	**Tuesday, 15 January 2013**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
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AGENDA

1. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

   Members of the Committee are asked to declare any disclosable pecuniary and non pecuniary interests, in connection with any item(s) on the agenda and state the nature of the interest.

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

   To receive the minutes of the meeting held on 20 November, 2012.

3. **LGPS UPDATE (Pages 7 - 42)**

4. **PENSION FUND BUDGET**

   Report to follow.

5. **MEMBER DEVELOPMENT PROGRAMME 2013 (Pages 43 - 46)**

6. **TREASURY MANAGEMENT STRATEGY (Pages 47 - 62)**

7. **INDEPENDENT ADVISOR (Pages 63 - 66)**

8. **PROPERTY ARREARS**

   Report to follow.

9. **TUNSGATE (Pages 67 - 68)**

10. IMWP MINUTES 28 NOVEMBER, 2012 (Pages 69 - 72)

11. 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.

12. PROPERTY ARREARS

Report to follow.

13. TUNSGATE (Pages 73 - 90)

14. IMWP MINUTES 28 NOV 2012 (Pages 91 - 96)

15. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

PENSIONS COMMITTEE

Tuesday, 20 November 2012

Present:	Councillor	P Glasman (Chair)	
	Councillors	G Davies T Harney S Hodrien M Hornby AER Jones	AR McLachlan C Povall H Smith A Sykes G Watt
	Councillors	N Keats, Knowsley Council P Hurley, Liverpool City Council J Fulham, St Helens Council Mr P McCarthy, (NonDistrict Council Employers)	
Apologies	Councillor	P Tweed, (Sefton Council)	

39 **FILMING/RECORDING BY THE PUBLIC OF COUNCIL COMMITTEE MEETINGS.**

The Chair of the Pensions Committee referred to an advice note sent to Members from Surjit Tour, Acting Director of Law, HR and Asset Management Monitoring Officer. The Chair detailed the contents of the advice note and invited comments from the Committee.

On a motion by Councillor Harry Smith and seconded by Councillor Ann McLachlan it was:

Resolved (13:3) - That members of the public be requested to cease filming at this Committee and that the decision on whether the public be permitted to film/record Council Committee Meetings be referred to a future meeting of the Council.

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

Members were asked to declare any disclosable pecuniary or non pecuniary interests in connection with any item(s) on the agenda and, if so, to declare them and state the nature of the interest.

Councillor Norman Keats declared a disclosable pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a disclosable pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

41 **MINUTES**

The Acting Director of Law, HR and Asset Management submitted the minutes of the meeting of 18 September, 2012.

Resolved – That the minutes be received.

42 **LGPS UPDATE**

A report of the Interim Director of Finance provided an update for Members of the progress of the 2014 LGPS reform project and the revised statutory consultation framework relating to the draft regulations.

The report also covered the key provisions of the Public Service Pensions Bill and its impact on the Local Government Pension Scheme.

A letter to the Treasury from Wirral Council dated 22 October, 2012 outlining significant concerns in regard to some of the provisions of the Public Service Pensions Bill 2012 as currently drafted was attached as an appendix to the report.

Resolved – That the report and the contents of the letter attached at Appendix 1 to the report be noted.

43 **STATEMENT OF INVESTMENT PRINCIPLES**

A report of the Interim Director of Finance presented Members with an updated Statement of Investment Principles (SIP) and asked that Members approve the document and the changes from the previous SIP. Paddy Dowdall, Investment Manager, Merseyside Pension Fund provided a summary of the document and gave details of minor amendments including hyper-links that would be added before it was published.

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

44 **SCHEME PAYS POLICY**

A report of the Interim Director of Finance sought Members approval of Merseyside Pension Fund's proposed policy under HM Revenue & Customs (HMRC) Annual Allowance Scheme Pays Process. A timeline of Scheme Pays Process was attached as an Appendix to the report.

Yvonne Caddock, Principal Pensions Officer, Merseyside Pension Fund, outlined the report and responded to questions from members.

Resolved- That

1) the officers' recommendation that the Fund should only exercise the mandatory element of 'Scheme Pays' be agreed. To clarify, the mandatory option covered circumstances when a tax charge arises when the value of the Annual Allowance attributable to benefits accrued within the LGPS is £50,000 and the tax charge resulting was more than £2,000.

2) requests from individuals to meet tax charges incurred in non-LGPS related schemes should be refused.

45 **LGC INVESTMENT AWARDS**

A report of the Interim Director of Finance informed members of the submission of an entry for the LGC Investment Awards 2012.

The awards ceremony was to take place on 11 December at The Royal Garden Hotel, Kensington, London and the closing date for submission of entries was 12 October. Peter Wallach, Head of Merseyside Pension Fund provided members with a verbal update on progress at the meeting and informed members that Merseyside Pension Fund had been shortlisted for an award – Large Pension Fund of the Year.

Resolved – That attendance at the LGC Investment Awards ceremony on 11 December, 2012 be agreed in the ratio 1:1:1 together with the Head of the Pension Fund.

46 **GIFTS AND HOSPITALITY POLICY**

A report of the Interim Director of Finance responded to the recent review of the Council's gifts and hospitality procedure by Audit Commission, clarified arrangements at Merseyside Pension Fund and proposed revised reporting arrangements to improve clarity and transparency for other stakeholders in the Fund.

It also proposed that the Fund's arrangements were accepted as non-binding, best practice guidance for those members of Committee who are otherwise not subject to personal conduct arrangements.

Resolved – That the following actions be approved by the Pensions Committee;

1) gifts and hospitality be declared in accordance with Wirral's procedures (subject to the £25 "de minimus") and reported to the Pensions Committee annually.

2) it be acknowledged that reimbursement of expenditure, the defrayal of costs or attendance at industry events is not deemed to be hospitality but is reported to Committee as set out in section 2.5 of the report.

3) it be accepted that the guidance in the Compliance Manual reflects the practicalities of the Pension Fund's business needs and that this is reflected by Wirral in its overall governance arrangements.

4) the Fund's arrangements be accepted as non-binding, best practice guidance for those members of Committee who are otherwise not subject to personal conduct arrangements.

5) the arrangements agreed at this meeting of the Pensions Committee be reflected in the Fund's guidance and the Compliance Manual, appropriately revised, be brought to a future meeting of the Pensions Committee for approval.

47 **CUNARD BUILDING**

A report of the Interim Director of Finance presented Members with an update on work that had been undertaken since the last Pensions Committee on the Cunard Building and asked that Members provide guidance for officers in their assessment of the pending report from CBRE. The CBRE report was expected to be received in December and would be taken to January Pensions Committee.

The appendix to the report, update and proposed framework, contained exempt information. This was 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).

On a motion by Councillor Mike Hornby and seconded by Councillor Harry Smith it was:

Resolved – That

1) in order for members of the Pensions Committee to give support and expertise to officers in their consideration of proposals relating to the Cunard Building that the Committee agrees in principle to the setting up of a working party, if needed, ahead of the report from CBRE.

2) a further report be brought to Pensions Committee in January 2013.

48 **LGC INVESTMENT CONFERENCE**

A report of the Interim Director of Finance requested nominations to attend the Local Government Chronicle (LGC) Investment Conference that was to be held in Chester on 28 February to 1 March 2013.

It was reported that attendance at this conference was traditionally in the ratio 1:1:1. In recent years the independent adviser had also attended the conference and it was recommended that this decision was continued.

Resolved – That an invitation to the LGC Investment Conference 28 February to 1 March be extended to all members of Pensions Committee together with the independent advisor and that arrangements be coordinated by Peter Wallach, Head of Merseyside Pension Fund.

49 **MELLORS CATERING SERVICES**

A report of the Interim Director of Finance informed members of his decision taken under delegation to approve the application received from Mellors Catering Services Limited for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured a catering contract with Liverpool City Council for a period of 3 years and 8 months with effect from 11 February 2012.

The appendix attached to the report contained exempt information. This was 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 approval of the application for admission to the Merseyside Pension Fund of Mellors Catering Services Ltd be noted.

50 **IMWP MINUTES 10/10/12**

A report of the Interim Director of Finance provided Members with the minutes of the Investment Monitoring Working Party (IMWP) held on 10 October 2012.

The appendices to the report, the minutes of the IMWP on 10 October 2012, contained exempt information. This was 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 IMWP which were attached as an exempt appendix to the report be approved.

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

Resolved – That in accordance with section 100A (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 it involves the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

52 **EXEMPT APPENDIX- CUNARD BUILDING**

The exempt appendices to the report on Cunard Building (Minute 47 refers) were exempt by virtue of paragraph 3.

53 **EXEMPT APPENDIX- MELLORS CATERING SERVICES**

The appendix to the report on Mellors Catering Services (Minute 49 refers) was exempt by virtue of paragraph 3.

54 **EXEMPT APPENDIX- IMWP MINUTES**

The appendix to the report on IMWP minutes (Minute 50 refers) was exempt by virtue of paragraph 3.

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

The Chair agreed to the following item as AOB as a decision was required before the next scheduled meeting of the Committee.

56 **DRAFT RESPONSE TO DEPARTMENT OF COMMUNITIES AND LOCAL GOVERNMENT (DCLG) INVESTMENT IN PARTNERSHIPS CONSULTATION**

Members of the Pensions Committee considered a report on the DCLG consultation paper LGPS: Investment in Partnerships and the outlined response. The consultation paper had been issued by DCLG at the beginning of November, 2012 with responses required by 18 December, 2012 and concerned amendments to the LGPS Investment Regulations (the Regulations) in order to help facilitate pension funds' investment in infrastructure projects. The consultation was clear in not recommending infrastructure investing, but was facilitating a framework in which local fund managers had appropriate levels of flexibility to maximise their investment opportunities.

The consultation requested a response to five questions which were set out in the report together with a potential LAPFF response. Peter Wallach, Head of the Pension Fund outlined to the Committee how MPF proposed to respond.

Resolved – That the Head of the Pension Fund prepare a response and subject to approval by the Chair submit this to DCLG.

WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**LGPS UPDATE**
WARDS AFFECTED:	**ALL**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members of position statements issued by the Local Government Association and Brandon Lewis MP, Parliamentary Under-Secretary of State, on the progress of the 2014 LGPS Reform project, councillors' pensions and of a further consultation on the Fair Deal Policy.

1.2 It also covers the Chancellor's Autumn Budget Statement and the impact on the Local Government Pension Scheme and Merseyside Pension Fund's response to the Department for Communities and Local Government's (DCLG) consultation on Investment in Partnerships.

2.0 BACKGROUND AND KEY ISSUES

Reform of the LGPS – The 2014 Project

2.1 On 1 November 2012 the Local Government Association and the local government Trade Unions issued a joint statement indicating that draft regulations would be circulated before the end of 2012; they will reflect the basis of the scheme design consulted and agreed by both members and employers during the summer.

2.2 It also confirmed that the proposals covering Governance and Cost Management were submitted to the Government at the end of July with discussions ongoing. The main element being considered is the creation of a National LGPS Board to extend best practice and to increase transparency, coordinate technical issues and provide liaison with the pension regulator.

A mechanism is also being considered to manage costs if they move 2% either side of the future service rate of 19.5%. It is also recommended that a working party is set up to investigate solutions to past service deficits. This joint statement is attached at Appendix 1

2.3 A Written Ministerial Statement has also been produced by Brandon Lewis that sets out the parameters for the forthcoming Statutory Consultation, specifying the intent for the new Scheme regulations to be in place in time for the 2013 Scheme Triennial Valuation thus enabling the actuary to consider the revised benefit structure when valuing future pension liabilities. The full statement is attached at Appendix 2.

Fair Deal Consultation

2.4 Fair Deal is a non-statutory policy applying to pension provision for Public Sector staff when they are compulsorily transferred to the Private Sector. The guidance was issued in 1999 and was called "A Fair Deal for Staff Pensions" and it was subsequently republished as an appendix to the Cabinet Office Statement of Practice issued in 2000, and updated in 2004.

2.5 Although the Government made it clear that it expected all public sector employers to adopt this policy it is not legally binding on Local Authorities. The Fair Deal policy protects staff pensions by ensuring that the new employer provides a Broadly Comparable Scheme and protects pre-transfer service through day for day bulk transfer arrangements.

2.6 The Best Value Authorities Staff Transfers (Pensions) Direction 2007 order was subsequently made to mirror the Fair Deal Policy and provides protection to staff employed by local authorities who are TUPE transferred to the Private Sector and is legally binding. The new employer can provide a Broadly Comparable Pension Scheme or apply for admitted body status to the appropriate LGPS Fund.

2.7 H.M. Treasury first consulted on the Fair Deal Policy in 2011 in response to a recommendation contained in the Hutton Report. This was a high level consultation and was made in the context that the Fair Deal principles were likely to apply across the whole Public Sector including Local Government. Merseyside Pension Fund's response to this first consultation is attached at Appendix 3.

2.8 Following this consultation the Government then confirmed its intention to retain Fair Deal in a statement made on 20 December 2011. The Government's proposal is to enable compulsorily transferred staff to remain in their Public Sector Pension Scheme.

2.9 The provision of continued access to the Local Government Pension Scheme (LGPS) for staff transferred to the private sector was part of the agreement reached by Employers, Trade Unions and Government for the new LGPS Scheme and will be the subject of a separate consultation.

The New Scheme proposal is that scheme members who are part of an out sourcing arrangement will continue to contribute to LGPS (currently this is a choice made by the new employer). Negotiations are still ongoing for the LGPS framework to achieve this objective.

2.10 This further Fair Deal consultation is about the practical detailed operation of Fair Deal in the Public Sector and is aimed principally at the unfunded Public Sector

Schemes. MPF does not therefore feel it is necessary to respond individually and directly to this consultation.

The impact of the new Fair Deal will be considered by the DCLG in view of the extant Best Value Authorities Staff Transfers (Pensions) Direction 2007, together with Admitted Body Status in the Local Government Pension Scheme. The consultation document can be found on HM Treasury web site www.hmtreasury.gov.uk/tax.

Chancellor's Autumn Budget Statement

2.11 The Chancellor presented his Autumn Statement on 5 December with the key changes affecting the LGPS relating to reductions to both the Annual Allowance and the Lifetime Allowance from 2014/15 as follows:

- Annual Allowance falls from £50,000 to £40,000. The carry forward calculations for the prior tax years will continue to be based on the old £50,000 limit.
- A reduction in the Lifetime Allowance from £1.5m to £1.25m with the potential for transitional protections to be applied.

No change was announced in the Autumn Statement to the rules around tax free cash lump sums or tax relief on pension contributions.

Investment in Partnerships Consultation

2.12 The DCLG issued a consultation dated 6 November on Investment in Partnerships seeking views as to whether there is a need to amend the LGPS (Management and Investment of Funds) Regulations 2009. The aim is to provide greater flexibility for Pension funds to diversify their investments to obtain potential returns from infrastructure projects. The closing date for this consultation was 18 December 2012.

2.13 The two options considered are :

- Increase the limit on investments in partnerships from 15% of a local authority pension fund to 30%
- Create a new investment class for investment in infrastructure with an appropriate investment limit of 15% of an overall fund

2.14 MPF responded on 6 December and the full response is attached as Appendix 4.

2.15 In summary MPF considers

- that the proposal to increase the limit to 30% in infrastructure investments is an appropriate short term solution but would suggest a more fundamental review of the regulations to align with the flexibility afforded in private sector occupational pension funds;
- Each local government pension is unique and a higher limit may not be appropriate for all in view of the illiquidity of partnerships and their long term nature.
- The Fund does not support a new investment class for infrastructure as this may have the unintended consequence of limiting the range of investment options and in recognition that local authority funds are maturing far more quickly due to reductions in public sector services.
- Although we are not aware of many funds close to the 15% partnership limit, raising it 30% will enable will enable those funds affected by the restriction to invest if it be appropriate.

Councillors Pensions

2.16 On 19 December, DCLG issued a statement indicating their intention to abolish councillors' pensions on the basis that an occupational pension scheme intended for employees, and paid for by taxpayers, is not an appropriate vehicle for councillors. It believes these reforms will assist localism and local democracy by encouraging a greater separation between councillors and officers. Robust local scrutiny of council spending requires councillors to be substantively independent of means and of thought from the body they are overseeing.

2.17 Subject to consultation, the proposal is that there will be no access for councillors to the LGPS in England from April 2014. Those councillors already in the Scheme would have their accrued rights up to April 2014 fully protected, but would not be able to accrue any further benefits after that date.

Elected mayors will be allowed to remain in the Scheme, as a voluntary option. The salaries of the Mayor of London, members of the Greater London Assembly and Police and Crime Commissioners will remain pensionable.

2.18 It is estimated that this could result in a saving for £7 million a year.

2.19 The full statement is attached as Appendix 5.

3.0 RELEVANT RISKS

3.1 It is vital that the LGPS 2014 Regulations are timely, comprehensive, effective and clear to help ensure the continuing efficient administration of the LGPS. The Government is also keen that the LGPS Fund actuaries are able to reflect the changes in their 2014 employer future service rates.

Delays to the consultation process present a greater risk that actuaries will be unable to build the required models to reflect the new benefit structure in time for the Triennial Valuation work.

3.2 There is a risk that the DCLG will fail to issue the Draft Regulations within the new prescribed timeframe and equally respond to clarifications and the usual legislative amendments required for final Statutory Instruments. Unless the final regulations take into consideration feedback from administering authorities, there is a real risk that they will be operationally cumbersome and may fail to deliver the necessary change – contingency arrangements will be required to ensure continuity of effective service levels and Statutory Requirements of other related legislation.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. It is important that MPF responds to the consultations that will lead to revised regulations and a reformed LGPS.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 As the Statutory Consultation progresses and detail from the Draft Regulations appear and are clarified during calendar year 2013 – MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications; in recognition of the fundamental change of introducing a Career Average benefit pension arrangement complete with ongoing protections to the pre-2014 Final Salary benefits.

7.2 The intention remains that the Regulations revising the benefits offered by the LGPS will be in place to allow the Fund's actuary to take account of such changes in determining future service costs for employers.

7.3 The reduction to the Annual Allowance coupled with a contemporaneous increase in the accrual rate from April 2014 will mean that more people will be subject to tax charges.

7.4 The reduction to the Annual Allowances increases the number of members that will be identified as "at risk" of a tax charge. Fund resources will be required to perform the required calculations of previous unused allowance, the production of Pension Saving Statements and the notification by post to the members.

Resources in relation to the Annual Allowance work will continue to be monitored by the Fund, specifically in regard the implications on staff resources and the mandatory "Scheme Pays" option; this allows the member to reduce their future pension benefits in order for the Fund to meet the tax charge.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

The reforms to the LGPS and the Fair Deal Policy have already been assessed by Government with regard to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 That Members note the report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members of the Pension 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.

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APPENDICES

1. **LGPS 2014 – Joint Statement- Update On Workstreams 1 And 2**
2. **Written Ministerial Statement – Brandon Lewis MP**
3. **Previous MPF submission to Initial Fair Deal Consultation in 2011**
4. **MPF submission to DCLG Consultation on Investment in Partnerships**
5. **Councillors' pensions**

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT

Local Government Pension Scheme

The Parliamentary Under-Secretary of State for Communities and Local Government (Mr. Brandon Lewis): On 12 September 2001, the then Department for Transport, Local Government and the Regions announced plans to give taxpayer-funded pensions to councillors, through access to the Local Government Pension Scheme.

The proposals came into force in 2003. The Councillors' Commission report of the last Administration noted that 912 councillors in England had joined that pension scheme by 2004. A Taxpayers' Alliance survey in February 2009, across the whole United Kingdom, found that 3,527 councillors had pensions as of 2007-08; a further survey in January 2012 found that figure had increased to 4,548 councillors by 2010-11. The trend is clear.

Abolition of taxpayer-funded pensions

Ministers in this Government take a fundamentally different view to the last Administration. We do not believe that taxpayer-funded pensions are justified. Councillors are volunteers undertaking public service; they are not and should not be employees of the council dependent on the municipal payroll. They are not professional, full-time politicians, nor should they be encouraged to become so.

Councillors do not receive a salary; rather, they receive allowances to compensate for their out-of-pocket expenses. Yet following changes made by the last Administration, allowances have slowly become a form of salary, a situation worsened by the state-funded pensions. This is a corrosive influence on local democracy and independent thought, blurring the distinction between council staff and councillors.

Every bit of the public sector needs to do its bit to help pay off the deficit inherited from the last Administration. Local government grants are being reduced. Ministers have cut and then frozen their salaries. Public sector pensions, including Parliamentary pensions, are being reformed to reduce the burden on taxpayers. It is only right that councillors do their bit as well.

We do not believe that an occupational pension scheme intended for employees, and paid for by taxpayers, is an appropriate vehicle for councillors.

Existing pension rights

Subject to consultation, we propose that there will be no access for councillors to the Local Government Pension Scheme in England from April 2014. In the interests of fairness, those councillors already in the Scheme would have their accrued rights up to April 2014 fully protected, but would not be able to accrue any further benefits after that date in the existing Scheme.

This will not prevent councillors contributing to a personal pension: if they put aside part of their (taxable) allowances into such a pension, then that is a matter for them;

they will continue to receive income tax relief like any ordinary member of the population, subject to the prevailing tax rules.

Although central records on councillors' participation in the Scheme are not held by my Department, initial rough estimates suggest that this could save £7 million a year in taxpayers' money. There is absolutely no case for increasing councillor allowances to compensate. Instead, councils may want to consider earlier, voluntary closure of the Scheme to their councillors as a sensible saving.

Civic duty

Eligibility regulations for the Local Government Pension Scheme are overseen by my Department. Although this is a centrally mandated change (as was its original introduction), we believe these reforms will assist localism and local democracy by encouraging a greater separation between councillors and officers. Robust local scrutiny of council spending requires councillors to be substantively independent of means and of thought from the body they are overseeing. Civic duty should not be bought.

We do not believe it will have any detrimental effect on people choosing to become councillors. The best thing we can do to encourage more people to take part in municipal public life is to decentralise power to local communities so being a councillor is a meaningful and rewarding role.

Elected mayors

We recognise that there is a greater expectation that an elected mayor is a full-time position. We therefore propose to consult on allowing elected mayors to remain in the Scheme as a voluntary option (but not as an expectation), subject to local scrutiny, challenge and determination. The salaries of the Mayor of London, members of the Greater London Assembly and Police and Crime Commissioners will remain pensionable.

Timing

Statutory consultation is required and will commence in due course, as part of the planned consultation on the wider reform of the Local Government Pension Scheme. We will consult with the Welsh Assembly Government in respect of access to the Local Government Pension Scheme for councillors in Wales.

As a former councillor myself, I would like to pay tribute to their often unsung and ongoing work in standing up for their local residents. We hope these reforms will further strengthen the integrity and independence of councillors and increase the respect within their communities for the voluntary work they undertake as champions of the people.

WRITTEN MINISTERIAL STATEMENT

Local Government Pension Scheme

Brandon Lewis MP
Parliamentary Under Secretary of State for Communities and Local Government

The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and moderate earnings." The Local Government Pension Scheme currently costs the taxpayer £6 billion a year.

On 17 July, my friend, the former Parliamentary Under-Secretary of State for Communities and Local Government, made a statement to the House that the Local Government Association and local government trade unions had started informal consultations with their respective memberships on designs for a new Local Government Pension Scheme to be in place by 2014.

Those informal consultations are now concluded. I can report to the House that in a joint statement issued by the Local Government Association and local government trades unions on 30 August, 90% of employers; 90% of UNISON members; 95% of GMB members and 84% of UNITE members, were in favour of the proposed scheme design. A copy of the Joint Statement can be found at www.lgps.org.uk. A copy of the statement has been placed in the House libraries.

In a letter to the Local Government Association of 30 May, my friend, the former Parliamentary Under Secretary of State for Communities and Local Government, agreed that a favourable outcome of the informal consultation would enable the Department to move directly to a statutory consultation exercise in the Autumn to implement these proposals. I can now confirm that we will be consulting on draft regulations to implement the matters set out below at the earliest opportunity and will also be seeking an agreed position on other issues that the Local Government Association and the trade unions have proposed, such as scheme governance and cost control.

The intention remains to have the new scheme regulations in place to coincide with the next Scheme valuation in 2013 to enable local fund actuaries to reflect elements of the new design in this process before the reformed Scheme comes into operation in 2014 and to give software and payroll providers sufficient time to establish and test procedures for the scheme after April 2014.

The main parameters forming the basis of the forthcoming statutory consultation are set out below :

A start date of April 2014 with core elements of the new scheme regulations in place by March 2013

A pension scheme design based on career average and actual pay

An accrual rate of 1/49th of pensionable earnings each year

Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)

A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service

A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate

Pensions in payment to increase in line with a price Index (currently Consumer Prices Index)

Benefits to increase in any period of deferment in line with a price index (currently Consumer Prices Index)

Average member contribution yield of 6.5%, with tiered contributions

Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations

Early/late retirement factors from age 55 on an actuarially neutral basis

A vesting period of two years

Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit

Ill-health retirement pensions to be based on the current ill-health retirement arrangements.

There will be transitional protection in respect of:

All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme

Protection underpin for members aged 57 to 59

Rule of 85 protection as in the current scheme.

The consequences of the new Fair Deal for the local government workforce will be considered by the Department for Communities and Local Government in view of the extant Best Value Authorities Staff Transfers (Pensions) Direction 2007 and Admitted Body Status in the Local Government Pension Scheme

The Government Actuary's Department has confirmed that the scheme design set out above does not exceed the agreed cost ceiling of 19.5% of pensionable pay. A copy of the Government Actuary's Department verification has been placed in the Library.

The initial focus of the statutory consultation exercise will be on the Local Government Association and local government trades unions' proposals for the design of the new scheme from April 2014. The Public Service Pensions Bill introduced on 13 September set out new arrangements for the future of public service pension schemes. This Bill provides a strengthened framework for administration, transparency, governance and cost control of the schemes, including the Local Government Pension Scheme. Although still matters under consideration, the provisions in the Bill do not rule out any of the Local Government Association and local government trades unions' proposals on governance and cost control. I will continue to work closely with those bodies during the statutory consultation to consider these important matters further and in light of issues raised during the consultation.

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Our Ref: PS/PM

Your Ref: Fair Deal Consultation

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 20 May 2011

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

Dear Sir/Madam,

Consultation on the Fair Deal Policy

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

Wirral Council is responsible for the administration of the Merseyside Pension Fund which is part of the Local Government Pension Scheme (LGPS). The Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils, and over 100 other employers on Merseyside and elsewhere throughout the UK.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours faithfully

Deputy Head of Pension Fund

Annexe

Merseyside Pension Fund Admitted Employees - Contractors

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

Admitted Employees **Housing Bodies**

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

Admitted Employees **Bus Companies**

76	Arriva	362	
163	Glenvale/Stagecoach	45	
	Sub total	407	407
	Grand total		**4518**

Merseyside
PENSION FUND

Sandra Layne
The LGPS - Investments
Department for Communities and Local Government
5/F6 Eland House,
Bressenden Place
London
SW1E 5DU

Direct Line: 0151 242 1309

Please ask for: Peter Wallach

Date: 6 December 2012

Dear Ms Layne

Consultation on Local Government Pension Scheme: Investment in Partnerships

I refer to the above mentioned consultation document dated November 2012 and am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority of Merseyside Pension Fund.

Wirral Council is responsible for the administration of Merseyside Pension Fund which is part of the Local Government Pension Scheme (LGPS). Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils and over 100 other employers on Merseyside and elsewhere throughout the UK.

The Fund has over 45,000 active contributing members, 47,314 pensioners and just fewer than 33,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £5 billion. The LGPS is a defined benefit, final salary public sector occupational scheme.

Q1: How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?

MPF considers that the proposal for an increase to a 30% limit on investment in limited partnerships and the additional flexibility it would bring is an appropriate short-term measure. However, as a longer-term solution, we would suggest that a more fundamental review of the LGPS Investment Regulations is undertaken to align them with the flexibility and choice seen in private sector occupational pension funds.

Question 2: What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?

Each local government pension fund is unique and a higher limit may not be appropriate for all in view of the illiquidity of partnerships and their long-term nature. Notwithstanding this, an increase to 30% would provide scope for significant additional infrastructure investment without a material change in the way in which the regulations are framed.

Taking into account the illiquidity of many partnership vehicles and their long-term nature, it may be appropriate to strengthen the effect of Reg 15 so that any increase in the Schedule 1 limits is made in conjunction with advice from an actuary that, having regard to the fund's maturity profile, the increase is appropriate. This would allow for differentiation of regulated, mature, income producing operating assets from greenfield, development assets with construction risk and less certainty.

Q3: Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?

The Fund does not support a new investment class for infrastructure. There are three principal reasons for our objection.

1. There are many ways and investment vehicles that can be used to invest in infrastructure (e.g. quoted investment trusts, quoted equities, pooled arrangements, bonds) and the focus on partnerships or limited liability partnerships may have the unintended consequence of limiting the range of investment options considered.

2. There is considerable difficulty in defining an asset class and an inevitable consequence is that some suitable investments will be excluded and some less suitable investments included. There may be unintended effects on the categorisation of existing investments already held.

3. Whilst recognising that many infrastructure investments have characteristics that are attractive to pension funds such as their regulatory framework, long term nature, predictable revenues, income generation, lower exposure to the economic cycle, and potential as an inflation hedge, the illiquidity of development assets in particular may make some of them less suitable for some pension funds. Local authority funds are maturing far more quickly than many have forecast due to the substantial reductions in public sector services.

A discrete allocation to infrastructure may be seen as an implicit approval of infrastructure as an asset class and investment strategy should be determined with specific reference to a scheme's liabilities and characteristics.

Question 4: Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?

Response: Although we are not aware of many funds close to the 15% partnership limit, raising it to 30% will enable those funds affected by the restriction to invest if they feel it to be appropriate. As indicated in question 3, there are several ways to access the opportunity.

Question 5: Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

Response: Nothing to add to answer to question 4.

Yours sincerely

Peter Wallach

Head of Pension Fund

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Department for Communities and Local Government

Local Government Pension Scheme: Investment in Partnerships

Consultation

November 2012
Department for Communities and Local Government

This document/publication is also available on our website at www.communities.gov.uk

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

November 2012

ISBN: 978-1-4098-3691-9

The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme - Investment in Partnerships
Scope of this consultation:	This consultation seeks views on whether any amendment is necessary to remove specific barriers preventing Scheme funds from being invested in infrastructure investment vehicles designed to control risk exposure and provide both future income stream to funds and necessary capital input into projects intended to stimulate growth.
Geographical scope:	England and Wales.
Impact Assessment:	Not required as no impact on business or individuals

Basic information

To:	This consultation is aimed principally at local government.
Body responsible for the consultation:	The Department for Communities and Local Government is responsible leading on the policy and the consultation exercise.
Duration:	6 weeks, with a further consultation period if it is then necessary to introduce amending statutory provisions
Enquiries and how to respond	For enquiries and to respond to this consultation. Please e-mail sandra.layne@communities.gsi.gov.uk When responding, please ensure you have the words “Investment in Partnerships” in the email subject line. Alternatively you can write to: Local Government Pension Scheme - Investments Department of Communities and Local Government 5/F6 Eland House Bressenden Place London SW1E 5DU For more information, please see www.communities.gov.uk

Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 6 weeks. We are seeking views from the following parties with an interest in the Local Government Pension Scheme: The Welsh Assembly The Chief Executives 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 National Probation Service for England and Wales 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 Association of Educational Psychologists NAPF NALC

	Society of Local Council Clerks Trades Union Congress GMB UCATT UNISON Unite NAEIAC NAPO MOCOP Members Equal Opportunities Commission

Background

Getting to this stage:	Subsequent to the publication of the Government's *Blueprint for Technology* and the signing of a memorandum of understanding between pension industry representatives and the Government on examining ways pension funds could invest in infrastructure projects, concern has been expressed that extant provisions of the LGPS (Investment and Management of Funds) Regulations 2009 may be placing an unintended bar on authorities seeking to invest in this particular area.
Previous engagement:	See above

How to respond

1. Responses to this consultation must be received by **18 December 2012**.

2. You can respond by email to sandra.layne@communities.gsi.gov.uk or write to:

Local Government Pension Scheme - Investments
Department of Communities and Local Government
5/G6 Eland House
Bressenden Place
London SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at www.communities.gov.uk

Confidentiality and data protection

6. 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).

7. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, 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, in itself, be regarded as binding on the department.

8. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

10. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

11. A copy of the consultation criteria from the Code of Practice on Consultation is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator,
Zone 8/J6,
Eland House,
Bressenden Place
London SW1E 5DU

Contents

Chapter 1 - Introduction

1.1 The primary responsibilities of local authority pension funds are to deliver the returns needed to pay Scheme members the pensions they have worked hard to earn, and to protect local taxpayers and employers from high pension costs. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) are designed to enable local fund managers to pursue effective investment strategies that meet these goals. By requiring that funds and risks are spread across a number of different types of investment, and setting limits on the proportion of funds that can be invested in each type of investment, the Investment Regulations help to minimise risk and protect the interest of taxpayers.

1.2 Within this framework, it is important that local fund managers have appropriate levels of flexibility to maximise their investment opportunities. In this context, concerns have been expressed that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. It has been suggested that this is as a result of certain investment category limits within the Investment Regulations, particularly where investments which use Limited Liability Partnerships have to be considered under the overall restriction applying to partnerships. This consultation, therefore, seeks views on whether there is merit in amending the Investment Regulations to provide further flexibility in the area relating to partnerships.

1.3 The consultation will close on 18 December 2012 and details of how to respond are set out at the beginning of the document. Importantly, this consultation should not be seen as an endorsement by Government of any particular investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis. Rather, this consultation is seeking to identify and remove any unnecessary barriers to investments which can form an integral part of a local investment portfolio and can also assist in stimulating growth.

Chapter 2 - Setting the context

Framework for local investment decisions

2.1 Local pension authorities must ensure that their funds will provide a consistent and known income stream over the long term. This will help minimise the impact of managing pension costs, stabilise the level of employer contribution rates and limit local taxpayers' exposure over the medium to long term. In developing their investment strategies, local fund managers must operate within the framework set by the Investment Regulations. These require funds to be invested across a spread of different types of investment to minimise risk, and limit the proportion of funds that can be invested in each type of investment. A copy of the Investment Regulations can be found at: www.legislation.gov.uk/uksi/2009/3093/contents/made .

2.2 All local authority pension funds are required to have in place a Statement of Investment Principles which will describe the Fund's investment objectives, the types of investments held and the Fund's attitude to risk. Any local investment decision must comply with the Fund's Statement of Investment Principles, must be supported by a clear business case and must have been made in the light of appropriate and proper advice. Final investment decisions rest, in the main with locally elected councillor members of investment committees, although such committees may include other co-opted representative, and the committee will have given due regard to the available professional advice and the appropriate use of public funds.

Investing in infrastructure

2.3 In November 2010, the Government published its *Blueprint for Technology* [1] which set out the Government's aim to make the UK the most attractive place in the world to start and invest in innovative technology companies. The blueprint highlighted the role that pension funds, both in the private and public sector, can play in filling gaps in the provision of growth finance and equity funding for small businesses. Whilst recognising that decisions whether or not to invest in any particular product or sector will remain entirely a matter for individual pension funds, the blueprint encouraged local authorities to consider doing more to match the investment strategies of local authority pension funds with the needs of UK start-ups.

2.4 In November 2011, HM Treasury, the National Association of Pension Funds and the Pension Protection Fund signed a Memorandum of Understanding[2]. All parties agreed that there is the potential for mutual

[1] www.bis.gov.uk/assets/biscore/innovation/docs/b/10-1234-blueprint-for-technology.pdf
[2] www.hm-treasury.gov.uk/d/foi_memorandum_of_understanding.pdf

benefit for the Government and pension funds to facilitate investment in infrastructure. The parties agreed to work together to help establish the arrangements necessary for efficient and appropriate investment in UK infrastructure assets. This work has included the development of the Pension Investment Platform, which will seek to raise funds from both public and private sector pension schemes.

2.5 More recently, in July 2012, Professor John Kay published his independent review of UK Equity Markets and Long Term Decision Making[3]. The review posed several challenges to the relationship between pension funds and markets. Overall, the report recommends that there should be a shift in the culture of the stock market, with the intention of promoting more long term decision making both with a view to improving cash flow returns for pension funds and to provide a source of long term capital investment in businesses to enable them to grow.

The case for change

2.6 Within this context of debate about the role of pension schemes within infrastructure investment, some - including the National Association of Pension Funds - have expressed concern that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. In particular, it has been suggested that difficulty is caused by the 15% limit set by the Investment Regulations on investment in partnerships.

2.7 Commentators argue that, in common with other types of investment with a similar degree of risk, infrastructure investment vehicles are usually organised as limited partnerships. This means that any investment in vehicles such as the Pension Investment Platform (see paragraph 2.4) must be taken together with existing investments in other limited partnerships, including limited partnerships and the use of private equity via a partnership, in considering whether a fund's investment strategy fits within the permitted limits. It has been suggested that, in view of this, the current 15% limit is too low and would put some local authority pension funds at risk of exceeding this limit, and so unable to pursue infrastructure opportunities. It has been argued that this, in effect, limits diversification by constraining access to an asset class that may be well suited to a local authority pension fund's long term needs.

[3] www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report

2.8 In September 2012, the Smith Institute published a report on local authority pension funds and investing for growth[4], which arrived at similar conclusions. Among its proposals it recommended that Government should consider reviewing and exploring potential changes to the restrictions on investments as currently set out in the Investment Regulations. In particular questions were posed in relation to limits for investment in limited liability partnerships which fall under the general definition of partnerships.

[4] www.smith-institute.org.uk/file/local%20authority%20pension%20funds%20-%20investing%20for%20growth.pdf

Chapter 3 - Proposals for consultation

3.1 As indicated, by virtue of this consultation, Government is not endorsing any particular type of investment or investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis, with final decisions resting with locally elected councillors. Similarly, the Government is not proposing to fundamentally change the framework for investment provided by the Investment Regulations. Those regulations provide necessary and effective protections for local council tax payers, the principle of which must remain.

3.2 However, in light of the context described in the previous chapter, this consultation seeks views on whether action is necessary to amend those regulations to remove any unnecessary barriers to investments in infrastructure. If action is considered necessary, the Government would welcome views on what steps it should take.

3.3 The Government considers that there are two clear options for change:

A) Increase the limit on investments in partnerships from 15% of a local authority pension fund to 30%.

Such an increase could facilitate investment in infrastructure investment vehicles along side other existing arrangements organised as limited partnerships. However, there would be no direction for funds to spread investment in limited liability partnerships between different classes of investment. For example, a fund could use this higher limit to increase the proportion of funds that could be invested in other investment opportunities such as private equities. In addition, any increase to the proportion of funds invested in partnerships must be considered within the increased risk potentially involved in such vehicles.

B) Create a new investment class for investment in infrastructure (including via limited liability partnerships), with an appropriate investment limit of 15% of an overall fund.

Again, this approach would need to be considered in the context of increases in risk associated with investment in limited liability partnerships. However, it may help to protect against concentration of investment in a particular type of investment. In considering this option, respondents are asked in particular to offer views on how this might best be defined in regulation.

3.4 In the light of the options set out above, the Government would welcome views on the following questions:

Q1. How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?

Q2. What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?

Q3. Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?[5]

Q4. Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?

Q5. Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

[5] By way of illustration consultees may wish to look at s.2(3) of the Housing and Regeneration Act 2008

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WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**MEMBERS' DEVELOPMENT 2013**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with an outline of the proposed programme for Member development in 2013.

2.0 BACKGROUND AND KEY ISSUES

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

2.2 The Statement of Investment Principles, as agreed by Pensions Committee on 20 November 2012, states that "an ongoing training programme (updated annually) for Committee members and Fund officers [is provided] to ensure that decision-making is on an informed basis.

2.3 The CIPFA Pensions Panel has developed a technical knowledge and skills framework. This framework has been adopted by Committee as demonstrating best practice and enables the Fund to determine that it has the appropriate mix of knowledge and skills necessary. It also assists Members in planning their training and development needs.

2.4 Two of the six IMWP meetings contain a formal training session covering relevant/topical subject matter. Additionally, presentations by eternal professional organisations and the deliberative nature of all the working parties mean that attendance at them is an important element of Members' development.

2.5 The outline training programme is attached as an appendix to this report. It is comprised of a series of internal and external training events throughout the year. Separate papers, to consider and approve attendance at these events will be brought to Committee on an event by event basis. As MPF becomes aware of other appropriate events, Committee will be notified.

2.6 Members' may wish to avail themselves, on an individual basis, of the training opportunity offered by the LGE Fundamentals course which generally takes place over three separate days in October and November each year. This is directed at new members of committees with refresher training for longer-standing members.

3.0 RELEVANT RISKS

3.1 Failure to maintain an appropriate level of knowledge and skills commensurate with that thought appropriate for those acting as trustees in the LGPS may impair effective decision-making. Suitable and effective Member training should assist in mitigating this risk.

4.0 OTHER OPTIONS CONSIDERED

4.1 Based on an ongoing assessment of training needs, there may be the option of reverting to stand-alone training and development events.

5.0 CONSULTATION

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

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 Provision for Member training is included in the Pension Fund's annual budget.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members note and approve the proposed development programme.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The statutory requirement for pension funds to ensure informed decision-making combined with the increasing complexity of financial markets and investments, makes ongoing training and development an essential element of a Member's duties and responsibilities.

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APPENDICES

Appendix 1

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	**January 2012**
Pensions Committee	**January 2011**
Pensions Committee	**January 2010**

APPENDIX 1

MONTH (2013)	**EVENT**	**REPRESENTATION***
5 February	Economics seminar (sponsored by Aviva)	all members
28 February/1 March	LGC investment summit, Chester	all members
12 March	*IMWP tactical asset allocation*	*all members*
26 March	PIRC Corporate Governance Conference	chair
10 April	IMWP training session	all members
20/22 May	NAPF local authority conference, Gloucestershire	party spokespersons
June	LGE (LGPS annual trustees conference)	all members
June	CIPFA conference	chair
5/6 September	LGC investment seminar, Newport	party spokespersons
8 October	IMWP training session	all members
23 October	*IMWP actuarial valuation*	*all members*
November	Annual Employers Conference, Liverpool	all members
November/December	LGE Fundamentals training days; multiple dates and locations.	all members
December	LAPFF annual conference, Bournemouth	chair

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

WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**TREASURY MANAGEMENT POLICY**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request that Members approve the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the year 2013/14.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year. The plan and strategy were last approved by the Pensions Committee on 17 January 2012.

2.2 The policy statement is attached as Appendix 1 to this report. The elements that have changed are:

a. Changes have been made to reflect the proposed structure and reporting lines of Wirral Council. The designation 'responsible officer' has moved from the Section 151 Officer to the Head of Pension Fund.

b. Within Schedule 1 the £25m limit for cash left with the Custodian for internally managed has been removed, as it is subject to their market calls and the limit for the Fund's Custodian increased from £50m to £100m. The cash with the Custodian is held within a money market fund and the risk of default is managed by a diversified portfolio.

c. Within schedule 5 there are some changes to staffing following the completion of the restructure at MPF.

2.3 **Plan and strategy**

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

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

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

- The main aims when managing liquid resources are: the security of capital, the liquidity of investments, matching inflows from lending to predicted outflows, and an optimum return on investments commensurate with proper levels of security and liquidity.

- The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2013/14. Short-term money market rates are likely to remain at low levels for an extended period which will have an impact on investment income.

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

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

- Counterparties are reviewed on a regular basis using a range of information sources including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support. The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set out in the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than a focus purely on credit ratings for counterparts.

3.0 RELEVANT RISKS

3.1 The treasury management policy statement is mainly concerned with the mitigation of risks.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 There are no implications arising directly from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?
(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

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

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

12.0 RECOMMENDATION/S

12.1 That Members approve the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2013/14.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Statement of Investment Principles on 20 November 2012.

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APPENDICES

The Treasury Management Policy Statement 2013/14 is attached as appendix 1 to this report.

REFERENCE MATERIAL

CIPFA Treasury Management Code of Practice and Guidance Notes.

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee – Treasury Management Policy and Strategy 2010/11	13 January 2010
Pensions Committee – Treasury Management Annual	28 June 2010

Report 2009/10	
Pensions Committee – Treasury Management Policy and Strategy 2011/12	11 January 2011
Pensions Committee – Treasury Management Annual Report 2010/11	27 June 2011
Pensions Committee – Treasury Management Policy and Strategy 2012/13	17 January 2012
Pensions Committee – Treasury Management Annual Report 2011/12	25 June 2012

Appendix 1

MERSEYSIDE PENSION FUND
TREASURY MANAGEMENT POLICY STATEMENT

1 INTRODUCTION

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

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

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

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

2 DELEGATION

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

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

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

3 DEFINITION

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

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

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

TREASURY MANAGEMENT PRACTICES (TMPs)

4 TMP 1 RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

5 TMP 2 Performance Measurement

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

6 TMP 3 Decision Making and analysis

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

7 TMP 4 Approved Instruments, methods and techniques

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

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

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

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

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

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

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

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

9 TMP 6 Reporting Requirements and Management Information Requirements

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

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

9.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund’s treasury management policy statement and TMPs, will be received by the Pensions Committee.

9.4 The IMWP will receive interim reports on treasury management.

10 TMP 7 Budgeting, accounting and audit arrangements

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

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

11 TMP 8 Cash and cash flow management

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

12 TMP 9 Money Laundering

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

13 TMP 10 Training and Qualifications

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

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

14 TMP 11 Use of external service providers

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

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

15 TMP 12 Corporate Governance

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

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

MERSEYSIDE PENSION FUND:
SCHEDULE TO TREASURY MANAGEMENT POLICY
SCHEDULE 1:
RISK MANAGEMENT

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

CATEGORY	**LIMIT Per Institution/Group**
Fund's Bank	£50m
Approved Bank	£20m
Approved Building Societies	£15m
All Local Authorities	No limit
Money Market Funds with a Constant Net Asset value	£30m
Fund's Custodian (Money Market Fund) (Internal and External Managers guideline)	£100m
Fund's Custodian (Money Market Fund) (Securities Lending Collateral	£50m

Funds deposited with the Custodian do not form part of the Treasury Management team's decision-making, but represent cash with fund managers awaiting investment or cash collateral. Cash left by internal and external managers is subject to their market calls. Subject to the restrictions within their individual Investment Management Agreements, the aggregate of their deposits could potentially exceed the £50m guideline in certain situations. The cash with the custodian is held within a money market fund and the risk of default is diversified across a wide number of names.

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

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

1.3 The Fund and the administering Authority (Wirral Council) and its advisors, Arlingclose Ltd, select financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns

- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.
- Any institution can be suspended or removed should any of the factors identified above give rise to concern.

1.4 It remains the Fund's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

1.5 The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts

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

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

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

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

SCHEDULE 2:
PERFORMANCE MEASUREMENT

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

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

SCHEDULE 3:
DECISION MAKING AND ANALYSIS

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

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

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

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

SCHEDULE 4:
APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 The Fund will use the following instruments for its internally managed treasury management activities. The Fund does not use derivatives for risk control associated with the treasury management function but may hold derivatives for risk control within the overall portfolio and as investments (these may be held by internal and external managers)

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

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

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

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

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

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

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

Strategic Director of Transformation & Resources and/or Head of Pension Fund
Responsibilities as set out in twelve Treasury Management Practices.

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

Group Fund Accountant
Responsible for team that undertakes treasury management activities.

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

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

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

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

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

Head of Pension Fund FCSI, ACIB
Group Accountant CPFA
Fund Accountant (Compliance) AAT
Fund Accountant (Operations) CIMA
Senior Settlements Officer AAT
Compliance & Valuations Officer ACA
Investment Assistant Chartered MCSI

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

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

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

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

SCHEDULE 6:
REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

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

6.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.

6.4 The IMWP will receive interim reports on treasury management.

SCHEDULE 7:
BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

SCHEDULE 8:
CASH FLOW

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

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

SCHEDULE 9:
USE OF EXTERNAL PROVIDERS

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

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

SCHEDULE 10:
CORPORATE GOVERNANCE AUDIT AND COMPLIANCE

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

• Internal policies
• Internal records of deals
• Counterparty confirmations

WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**PROVISION OF INDEPENDENT ADVICE TO MERSEYSIDE PENSION FUND**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to seek approval from Members for an extension of the contract with the Fund's independent adviser for a further 12 months.

1.2 In view of the changes to the Fund's governance arrangements resulting from Wirral's restructure of senior management, Committee is asked to consider the appointment of a further independent adviser.

2.0 BACKGROUND AND KEY ISSUES

2.1 From 2005 to 2010, members and officers of MPF benefitted from independent advice from two advisers. In 2010, one of the advisers stepped down and Mr Noel Mills was reappointed for a further three years to February 2013, with the option to extend for a further year.

2.2 On 20 December, Wirral confirmed that the Fund would now report to the Strategic Director of Transformation and Resources who will have wider responsibilities than the Director of Finance.

2.3 The Fund is proposing to introduce tactical asset allocation arrangements which will require additional governance and this could be made more resilient by an additional adviser. Also, by staging adviser appointment dates, greater continuity would be assured.

3.0 RELEVANT RISKS

3.1 With the increasing complexity of investment strategy, strengthening the resilience of the independent resource to members may be appropriate.

The changes to reporting structures may have implications for the oversight of the Fund.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered

5.0 CONSULTATION

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

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 The incumbent adviser's fee is £15,000 p.a.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members approve the extension of the contract with the Fund's independent adviser for a further 12 months.

12.2 That Members consider the appointment of a further independent adviser and, if approved, agree to a procurement exercise to achieve this.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The provision of independent advice to Pensions Committee is a key element of the Myners Principles.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

None

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	September 2009

Minutes of Investment Monitoring Working Party, 28th November 2012

In attendance:

(Chair) Councillor Patricia Glasman (WBC)	Peter Timmins (Interim Director of Finance)
Councillor Mike Hornby (WBC)	Peter Wallach (Head of MPF)
Councillor Adrian Jones (WBC)	Paddy Dowdall (Investment Manager)
Councillor Harry Smith (WBC)	Susannah Friar (Property Manager)
Paul Wiggins (Unison)	Greg Campbell (Investment Manager)
Phil Goodwin (Unison)	Allister Goulding (Investment Manager)
Noel Mills (Investment Advisor)	Adam Williamson (Investment Assistant)
Emily McGuire (Aon Hewitt)	Emma Jones (PA to Head of MPF)

Apologies were received from:

Councillor Geoffrey Watt (WBC)	Councillor Sylvia Hodrian (WBC)
Councillor George Davies (WBC)	Councillor Ann McLachlan
Councillor Norman Keats (WBC)	Councillor Cherry Povall

Declarations of interest

There were no declarations of interest

WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**TUNSGATE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION? *(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)*	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with a review of options considered by the Fund's property advisers, for the Tunsgate Shopping Centre, Guildford and to seek their for the course of action advised by CBRE.

1.2 Appendix 1 to the report, the report from CBRE, 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 BACKGROUND AND KEY ISSUES

2.1 The Fund owns a portfolio of properties around the UK and this report forms part of an assessment by the Fund's property advisers of that portfolio.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered other than those set out in the appendix.

5.0 CONSULTATION

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

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 The anticipated costs are set out in the exempt report. The preferred option has limited staffing implications; alternative options will have significant staffing implications.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members consider the report, approve the recommendation of the Fund's property advisers and authorise officers to implement that option in conjunction with CBRE.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The exempt appendix provides a summary of matters considered pertinent by the Fund's property advisers in their assessment of the situation and in formulating their recommendations.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Exempt appendix 1

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	**MINUTES OF THE INVESTMENT MONITORING WORKING PARTY**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**INTERIM 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 28 November 2012.

1.2 The appendices to the report, the minutes of the IMWP on 28 November 2012, contain 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 BACKGROUND AND KEY ISSUES

2.1 The IMWP meets six times a year to enable Members and their advisers to consider investment matters, relating to Merseyside Pension Fund, in greater detail.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered

5.0 CONSULTATION

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

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

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

7.1 There are no implications arising directly from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members approve the minutes of the IMWP which are attached as an appendix to this report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The approval of IMWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

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APPENDICES

Exempt Appendix 1

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP's are brought to the subsequent Pensions Committee meeting.	

Minutes of Investment Monitoring Working Party, 28th November 2012

In attendance:

(Chair) Councillor Patricia Glasman (WBC)	Peter Timmins (Interim Director of Finance)
Councillor Mike Hornby (WBC)	Peter Wallach (Head of MPF)
Councillor Adrian Jones (WBC)	Paddy Dowdall (Investment Manager)
Councillor Harry Smith (WBC)	Susannah Friar (Property Manager)
Paul Wiggins (Unison)	Greg Campbell (Investment Manager)
Phil Goodwin (Unison)	Allister Goulding (Investment Manager)
Noel Mills (Investment Advisor)	Adam Williamson (Investment Assistant)
Emily McGuire (Aon Hewitt)	Emma Jones (PA to Head of MPF)

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Councillor George Davies (WBC)	Councillor Ann McLachlan
Councillor Norman Keats (WBC)	Councillor Cherry Povall

Declarations of interest

There were no declarations of interest

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

Agenda Item 13

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

Agenda Item 14

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