



## Pensions Committee

<b>Date:</b>	<b>Monday, 20 January 2014</b>
<b>Time:</b>	<b>6.00 pm</b>
<b>Venue:</b>	<b>Committee Room 1 - Wallasey Town Hall</b>

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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 - 8)**

To approve the accuracy of the minutes of the meeting held on 19 November, 2013.

**3. LGPS UPDATE (Pages 9 - 16)**

**4. PENSION FUND BUDGET (Pages 17 - 24)**

**5. MEMBER DEVELOPMENT PROGRAMME 2014 (Pages 25 - 28)**

**6. TREASURY MANAGEMENT POLICY (Pages 29 - 44)**

**7. UPDATE ON ANAEROBIC DIGESTION PROJECTS (Pages 45 - 48)**

**8. NAPF INVESTMENT CONFERENCE (Pages 49 - 52)**

**9. APPOINTMENT OF TRANSITION MANAGER FRAMEWORK (Pages 53 - 56)**

**10. MANAGER REVIEWS & TENDER EXERCISES (Pages 57 - 62)**

11. **PROPERTY ARREARS (Pages 63 - 66)**
12. **IMWP MINUTES 20 NOVEMBER, 2013 (Pages 67 - 70)**
13. **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.

14. **APPOINTMENT OF TRANSITION MANAGER FRAMEWORK - EXEMPT APPENDIX (Pages 71 - 76)**
15. **MANAGER REVIEWS & TENDER EXERCISES - EXEMPT APPENDIX (Pages 77 - 90)**
16. **PROPERTY ARREARS - EXEMPT APPENDIX (Pages 91 - 94)**
17. **IMWP MINUTES 20 NOVEMBER, 2013 - EXEMPT APPENDIX (Pages 95 - 104)**
18. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

## PENSIONS COMMITTEE

Tuesday, 19 November 2013

Present:

Councillor P Glasman (Chair)

Councillors	G Watt	H Smith
	T Harney	M Hornby
	G Davies	C Povall
	AER Jones	P Doughty

Mr P McCarthy, (NonDistrict Council Employers)  
Cllr N Keats, Knowsley Council

In attendance:

Mr P Wiggins (Unison)

Apologies

Councillors AR McLachlan  
J Fulham  
P Tweed  
P Hurley

### 51 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

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

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

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

Councillor Pat Glasman declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Paul Doughty declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

Councillor George Davies declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

### 52 MINUTES

The Strategic Director Transformation and Resources submitted the minutes of the meeting held on 16 September, 2013.

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

## 53 LGPS UPDATE

A report of the Strategic Director of Transformation and Resources updated Members with the latest regulatory developments relating to the Local Government Pension Scheme (LGPS) and raised awareness of the current collaborative project between Merseyside and Cheshire Pension Funds to plan and resource the implementation of the New Scheme from 1 April 2014.

The report also covered the recent consultation on 'Proposals for pooling arrangement for Academies and local authorities' and a position statement on the national LGPS Communication Plan.

Peter Wallach, Head of the Pension Fund, outlined the report and responded to Members questions.

Councillor Pat Glasman, Chair of the Pensions Committee, recorded the Committee's thanks to Guy Hayton and Yvonne Caddock for all their hard work on behalf of the Pension Fund.

**Resolved – That the report be noted and, subject to the agreement of the Chair of Pensions Committee, a response to the consultation be approved.**

## 54 ACTUARIAL VALUATION

A report of the Director of Transformation and Resources updated Members of the provisional results from the Fund's Triennial Actuarial Valuation.

It was reported that this matter had been discussed in detail at the IMWP on 23 October, 2013.

**Resolved – That**

- 1. the provisional valuation results be noted.**
- 2. the final valuation report and schedule containing employers' contributions be reported to the Pensions Committee in due course.**

## 55 FUNDING STRATEGY STATEMENT

A report of the Strategic Director of Transformation and Resources amended the Funding Strategy Statement (FSS) in accordance with updated advice received from the Actuary. The FSS aimed to secure the long term solvency of the Fund and would have a direct impact on the level of employer contribution rates set during the period of the 2013 Triennial valuation.

The revisions to the financial and demographic assumptions took account of the LGPS reform from 1 April 2014, market movements, the demographic experience of the Fund membership and would reflect changes to the Statement of Investment Principles (SIP).

The proposed amended Funding Strategy Statement was attached as an appendix to the report.

**Resolved – That**

- 1. the report be noted.**
- 2. the proposed amended Funding Strategy Statement attached at Appendix 1 to the report be approved.**
- 3. any subsequent revisions by the actuary be reported to the Pensions Committee.**

56 **ASSET ALLOCATION**

A report of the Strategic Director of Transformation and Resources outlined proposed changes to the strategic asset allocation following a detailed analysis undertaken by the investment consultant AON Hewitt, and discussions held with the internal investment management team and the independent advisers. This issue had also been discussed in detail at an IMWP meeting on 23rd October involving presentations from the Fund's actuary Mercer and Investment Consultant, Aon Hewitt.

It was reported that the Fund had last approved a strategic asset allocation at its meeting on 16 November, 2010.

The AON Hewitt report to IMWP on 23 October 2013 was attached as an appendix to the report.

**Resolved – That the revised Strategic Investment Allocation be approved.**

57 **STATEMENT OF INVESTMENT PRINCIPLES**

A report of the Strategic Director Transformation and Resources presented Members with a draft updated Statement of Investment Principles (SIP) and requested that Members note the changes from the previous SIP and approve the revised document.

The Committee was also asked to consider a project for a review of the Fund's approach to Responsible Ownership.

The revised Statement of Investment Principles and the proposed project for a fundamental review of MPF's approach to Responsible Ownership were attached as appendices to the report.

**Resolved - That**

- 1. having noted that the document will not be published until other relevant cross referenced documents have been approved, the revised Statement of Investment Principles which was attached as an appendix to the report be approved.**

2. **the project set out in Appendix 2 to the report, to make a fundamental review of the approach of the Fund to Responsible Ownership, be approved.**

## 58 **AUTHORISED SIGNATORIES**

A report of the Strategic Director Transformation and Resources set out proposed changes to authorised signatories at Merseyside Pension Fund (MPF) following the completion of the new Wirral management structure.

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

The report also formed a part of the Fund's scheme of delegation and set out the management and authorisation arrangements for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction. The current approved signatories were listed together with signatories the Pensions Committee was asked to approve.

### **Resolved – That**

1. **the arrangements set out in section 2 of the report in relation to the internal control arrangements at Merseyside Pension Fund and officers designated be approved**
2. **the officers designated in section 2 of the report as authorised signatories for Merseyside Pensions Fund be approved.**

## 59 **GIFTS & HOSPITALITY RETURNS**

A report of the Strategic Director of Transformation and Resources provided the Pensions Committee with a summary of monitoring/training events attended by officers of the Fund and gave details of gifts and hospitality received over the past 12 months.

It was reported that in November 2012, the Pensions Committee had approved new guidance in relation to the declaration of gifts and hospitality received by officers and those members of Committee that were not otherwise subject to personal conduct arrangements.

The guidance was reflected by Wirral in its overall governance arrangements and was set out in the Fund's Compliance Manual, which reflected the practicalities of the Pension Fund's business needs.

Appendix 1 of the report provided a schedule of declarations from December 2012 to September 2013.

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

## 60 **LGC INVESTMENT CONFERENCE**

A report of the Strategic Director of Transformation and Resources requested nominations to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Chester on 28-28 February 2014.

**Resolved – That –**

- 1. attendance at the Conference be approved and be open to all Members of Committee plus the independent adviser.**
- 2. arrangements be co-ordinated by Peter Wallach, Head of the Pension Fund.**

#### 61 **LGC INVESTMENT AWARDS**

A report of the Director of Transformation and Resources informed the Pensions Committee of the submission of an entry for the LGC Investment Awards 2013 to be held at the Grand Connaught Rooms, Holborn, London on 11 December 2013.

It was reported that the awards had been held for a number of years and were intended to celebrate the highest levels of achievement in local government pension funds.

The closing date for submission of entries was 25 October 2013 and Peter Wallach provided a verbal update on progress at the meeting.

**Resolved – That the LGC Investment Awards be attended in the ratio 1:1:1 together with the Chair of the Pensions Committee and Leyland Otter Senior Investment Manager, MPF.**

#### 62 **INVESTING 4 GROWTH**

A report of the Strategic Director Transformation and Resources informed the Pension Committee of the progress of an initiative by a number of Local Authority Pension Funds including Merseyside Pension Fund to look at the potential opportunities for investing for wider economic and social benefit.

It was reported that the Government was encouraging pension funds to invest more in major infrastructure projects. Local authorities meanwhile were looking to bridge their capital funding gaps with private finance, including from pension funds. The report noted that it was unclear what the potential was for local authority pension funds to increase their investments in the UK, and how much scope there was to maximise investments to help stimulate economic growth.

The report noted that by pooling resources with other LGPS funds and sharing the evaluation of the proposals, the Fund's approach sought to manage demands on staff time and resources. Nonetheless, the report highlighted that considerable staff time had already been devoted to the evaluation so far. As detailed in section 3 of the report investments of this nature were likely to be more resource intensive.

In the spring of last year, a major new study had been commissioned from the Smith Institute, supported by the Local Authority Pension Fund Forum (LAPFF) and Local

Government Pension Scheme funds, which sought to provide fresh insights into what was happening with local authority pension funds and with the aim of delivering a rigorous assessment of the prospects for advancing local authority pension fund investment to help stimulate growth and wider economic development. The report had been published on 24 October 2012 and was attached as appendix to the report. The principal findings were outlined to the Committee.

**Resolved – That**

- 1. the report and progress of this initiative be noted.**
- 2. a progress report be brought back to a future meeting of the Pensions Committee.**

**63 STRATEGIC PROPERTY ADVISORS CONTRACT**

A report of the Strategic Director of Transformation and Resources sought approval from the Pensions Committee to extend the mandate with CB Richard Ellis Real Estate Finance (CBRE REF) for a further two years.

It was reported that the Pensions Committee had approved the appointment of CB Richard Ellis Real Estate Finance as Strategic Property Advisors to the Fund in November 2009 for a period of four years with an option to extend for a further two years.

The report informed the Committee that officers had undertaken a formal review of the advice and service provided by CBRE REF since their appointment. This review had concluded that CBRE REF had met or exceeded expectations in the key aspects of their role.

**Resolved – That the extension of the mandate with CB Richard Ellis Real Estate Finance (CBRE REF) for a further two years be approved.**

**64 CUNARD BUILDING**

A report of the Strategic Director Transformation and Resources provided the Pensions Committee with an update on developments in relation to the Cunard Building.

In November 2012, a report had been brought to this Committee providing an update on work that had been undertaken by CBRE in relation to the Cunard Building. A follow up report, intended for January 2013 had been delayed whilst CBRE undertook a further evaluation of options.

At the Investment Monitoring Working Party on 8 October 2013, CBRE had briefed members of the Pensions Committee on various aspects of the Fund's direct property portfolio and had also addressed recent speculation in the media in relation to a potential offer for the Cunard Building by Liverpool City Council. Details of that briefing were included in the minutes to the working party attached to the report as an exempt appendix..

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



65 **NATIONAL EXPRESS VISIT**

A report of the Strategic Director Transformation and Resources sought approval for the Chair of Pensions Committee to accept an invitation to undertake a site visit of the US bus operations of National Express as a follow up to a LAPFF engagement meeting.

It was reported that at the October Investment Monitoring Working Party certain issues had been raised with regard to labour relations and working practices in the US bus operations of National Express. This had resulted in a meeting between the Chair of Pensions Committee and another member of the LAPFF executive and representatives of National Express.

As an outcome of this meeting, an invitation had been made for the Chair of Pensions Committee to undertake a site visit of the bus operations around which there were concerns. It was reported that this visit would serve a twofold purpose: to further MPF's engagement activities; and support the continuing engagement between LAPFF and National Express.

The Chair indicated that she welcomed the view of Members of the Pensions Committee and following discussion it was;

**Resolved – That the Chair of the Pensions Committee does not accept the invitation to undertake a site visit of the US bus operations of National Express.**

66 **MOSSCROFT CHILDCARE**

A report of the Strategic Director Transformation and Resources informed the Pension Committee of his decision taken under delegation, to approve the application received from Mosscroft Childcare Limited for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured a childcare contract with Knowsley Borough Council for a period of 5 years with effect from 1st September 2013.

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 the application for admission to the Merseyside Pension Fund of Mosscroft Childcare Ltd be approved.**

67 **IMWP MINUTES 08/10/13 & 23/10/13**

A report of the Strategic Director Transformation and Resources provided the Pensions Committee with the minutes of the Investment Monitoring Working Parties (IMWP) that had been held on 8 and 23 October 2013.

The appendices to the report, the minutes of the IMWP on 8 and 23 October 2013, 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 held on 8 and 23 October, attached as an exempt appendix to the report, be approved.**

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

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

**69 MOSSCROFT CHILDCARE - EXEMPT APPENDIX**

The appendix to the report on Mosscroft Childcare (Minute 66 refers) was exempt by virtue of paragraph 3.

**70 IMWP MINUTES - EXEMPT APPENDICES**

The appendices to the report on IMWP (Minute 67 refers) was exempt by virtue of paragraph 3.

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members on the current position of the regulatory framework of the Local Government Pension Scheme (LGPS) and provides an update on the collaborative project between Merseyside and Cheshire Pension Funds on implementing the New Scheme from 1 April 2014.
- 1.2 The report also covers the additional resource materials issued as part of the national LGPS Communications Plan and the Pensions Bill 2013/14.
- 1.3 Approval is sought for Officers to agree with the Chair of Committee, a response to a consultation on the implications for the LGPS of the Secretary of State for Justice's plans to introduce a new system for the management and rehabilitation of offenders in the community across England and Wales .

#### 2.0 KEY ISSUES

##### **Reform of the LGPS – LGPS Regulations 2013**

- 2.1 The Administration section is continuing to undertake an impact analysis of the changes to the benefit and administration provisions following publication of the 2013 Local Government Pension Scheme Regulations.
- 2.2 Officers are currently reviewing all operational processes, literature, forms and guidance notes to identify the required amendments to ensure compliance with the revised regulatory provisions and administrative requirements of the new Scheme.
- 2.3 The Fund is seeking to collaborate with large employers to extend current electronic information exchanges in order to improve data quality and deliver further operational efficiencies. The intention is to set up a project team comprising of Fund Officers and staff from the largest employers to develop a consistent and standardised approach to operational procedures that can be adopted by all employers.
- 2.4 The main task is to improve the current data reconciliation process with the objective to ensure that cumulative Pensionable Pay submissions are accurate, as pay forms the basis of the new guaranteed pension accounts.

##### **Regulatory Framework**

- 2.5 At the time of writing, the Transitional Regulations have still not been issued due to a number of scheme-wide issues. These issues, along with the new requirement that the DCLG must obtain clearance from HM Treasury, have delayed the planned release of the regulations.

The LGPS Technical Group has advised that the software suppliers have had sight of the proposed regulations and have indicated there are some radical changes to the draft provisions with further added complexity.

- 2.6 Draft regulations on Scheme Governance are expected in January 2014 following the consultation which closed in August 2013. Although they will not be effective until April 2015, they are likely to be introduced earlier enabling Funds to develop suitable governance arrangements.
- 2.7 Following the analysis of the submissions to the 'Call for Evidence' and an option appraisal on structural reform of the LGPS, to be led by the Shadow Scheme Advisory Board; there will now be a further consultation exercise on more specific reform options in early 2014.
- 2.8 A consultation exercise on the Investment regulations is expected in February 2014 and it is unlikely that any new regulations will be in place at the commencement of the new Scheme. It is the intention that the regulations will be less prescriptive and permit greater flexibility to the investment options available to Funds.

#### **Merseyside and Cheshire West & Chester Collaborative Project**

- 2.9 The formal project plan to define the joint working between Merseyside Pension Fund and Cheshire Pension Fund has been agreed and finalised.
- 2.10 Work has commenced on collaborative tasks related to LGPS 2014. At the time of writing this has included the development of shared communication materials for employers' and the sharing of practitioner training notes and guidance for officers.
- 2.11 A joint practitioner training day has been arranged in February for attendance by officers from both Funds.

Whilst still in its early stages, the collaboration will ultimately provide resource benefits as both Funds work towards delivering a robust operational service and investigate administration efficiencies by sharing expertise and best practice.

- 2.12 The Head of the Pension Fund receives a monthly Project Highlight Report, indicating any changes or deviations from the formal project plan.

Currently, the delay in receiving the Transitional Regulations has had an impact on both Funds making the planned progress in their related areas of work.

## **LGPS 2014 – Communications**

- 2.13 On the 18 November 2013 the LGPS 2014 member website [www.lgps2014.org](http://www.lgps2014.org) was re- launched. The site is administered by Merseyside Pension Fund, and following feedback from members, it now has a new look as well as updated content and information.

The content reflects, where possible, regulations which have been agreed for LGPS 2014. A further update will take place when the Transitional Regulations are laid.

- 2.14 As part of the re-launch of the website, three topic based videos were also released. Each of the videos is available with and without subtitles. The topics covered include:
- Contributions and the flexibility to pay more or less
  - How is my pension worked out?
  - When can I take my pension?

- 2.15 A complementary suite of printed leaflets are also available covering the same areas as the topic-based videos and other information on the website.

## **Pensions Bill 2013/14**

- 2.16 The Government introduced the Pensions Bill 2013/14 to Parliament on 9 May 2013 which, subject to parliamentary progress, is expected to receive Royal Assent by the end of spring 2014.

The Bill contains the provision for the switch from the two tier state pension to a simpler single tier pension. For people reaching State Pension Age from 6 April 2016, it also brings forward the increase in State Pension age to 67 between 2026 and 2028. The Bill also provides a framework for regular review of the State Pension Age.

## **Impact on National Insurance Contributions**

- 2.17 The introduction of the single-tier pension will result in the ending of ‘contracting-out’ of the additional State Pension with a direct impact to members and employers National Insurance contributions when participating in the LGPS.

Although this measure is not linked to Scheme reform, members and employers will be subject to an increase in NI Contributions of 1.4% and 3.4% respectively.

## **Associated Impact on Guaranteed Minimum Pension (GMPs)**

- 2.18 The Social Security Pension Act 1975 (SSPA) Act allowed employers to contract their employees out of SERPS and provided for reduced National Insurance contribution rates.

In return, the employers were required to provide occupational pensions of at least a guaranteed amount, called the Guaranteed Minimum Pension (GMP). This is a substitute for and broadly equivalent to the additional pension which LGPS members would have accrued through SERPS if they had not been contracted-out and applies to membership from 6 April 1978 to 5 April 1997

- 2.19 From 6 April 1997 the links between contracted-out schemes and SERPS were broken. Members of Contracted-Out Salary Related Schemes no longer accrue a GMP for future service. However, members retain the right to any GMPs earned on or before 5 April 1997. Instead of providing a GMP, schemes must from 6 April 1997 satisfy a test of overall scheme quality (the reference scheme test).
- 2.20 The GMP is calculated by the National Insurance Contribution Office and the entitlement to the GMP begins when pensioners reach State pension age.
- 2.21 For GMPs earned up to and including 5 April 1988, the occupational scheme is not required to index the GMP in payment as the increase is paid by DWP. However, occupational schemes are required to increase any GMPs earned from 6 April 1988 until 5 April 1997 by the lower of inflation or 3 per cent, with any balance above 3 per cent paid by DWP. The inflationary increases are paid with the additional State Pension.
- 2.22 The removal of the additional element of the State Pension now calls into question the existing mechanism for the DWP to pay pension increases as part of the single tier pension or whether the additional cost will fall on to LGPS employers.

This will obviously exacerbate the cost pressures already incurred following the abolition of contracting out.

- 2.23 The LGA is actively lobbying the Government as the Bill makes its way through parliament; opposing the increase in National Insurance Contributions for both employees and employers.

The LGA believe there are a number of practical options that could ease the impact of this, such as a possible deferral of the ending of contracting out for public service pension schemes or a cash injection by Government into Fund deficits. In addition, the LGA is lobbying to ensure the Government recognise the impact on LGPS funds of potentially having to meet the cost of Pension Increases on GMP.

## **Transforming Rehabilitation Programme**

- 2.24 In “Transforming Rehabilitation: A Strategy for Reform” the the Secretary of State for Justice set out plans to introduce a new system for the management and rehabilitation of offenders in the community across England and Wales.
- 2.25 The majority of probation services are currently delivered by 35 Probation Trusts under contract to the National Offender Management Service. Once the reforms are fully implemented, these will be replaced with 21 Community Rehabilitation Companies, which will be owned by private and voluntary sector providers, and the newly formed National Probation Service, which will be in the public sector and part of the National Offender Management Service.
- 2.26 Ordinarily, National Probation Service staff would become eligible for membership of the Principal Civil Service Pension Scheme. However, staff in the Probation Trusts are currently eligible to join the LGPS. The Ministry of Justice intends to facilitate continuity in pension provision for transferring staff.
- 2.27 To facilitate this continued pension provision, it is proposed that all Community Rehabilitation Companies and the National Probation Service will participate in one administering authority, the Greater Manchester Pension Fund. The transfer of staff, assets, liabilities and membership records is intended to commence from 1 April 2014.
- 2.28 The Ministry of Justice’s proposals in relation to future pension provision for probation staff will require regulatory amendments to the LGPS Regulations 2013 and the period of statutory consultation on those amendments will close on 10 February 2014.

### **3.0 RELEVANT RISKS**

- 3.1 There is a risk that a full suite of “fit for purpose” Statutory Instruments and Guidance from the Government Actuaries Department (GAD) will not be available in time to effectively administer the new LGPS from April 2014.
- 3.2 The collaborative project between Merseyside Pension Fund and Cheshire Pension Fund is directly reliant upon the provision of the regulations. Project ‘slippage’ on specific work items will be inevitable as the plan was finalised on the governments indicated timeframe for the regulations.

Regular communication between the officers of the two Funds, alongside the formal monthly monitoring of the project, provides an awareness of the project position.

- 3.3 The additional costs falling to members and employers as a result of changes to the State Pension could result in the LGPS becoming unaffordable to both members and employers and this external pressure may threaten the ongoing viability of the new Scheme.
- 3.4 The probation proposals will involve the transfer of substantial assets and liabilities to Greater Manchester Pension Fund and it is essential that the basis and terms of that transfer is determined clearly. A substantial number of membership records will also need to pass across.

### **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 statutory consultations that will lead to revised regulations and a reformed LGPS, particularly when relating to Governance, Cost Control and Administration, as it is crucial to ensure the Scheme is well-run and affordable in the long term.

## **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 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 ending of contracting-out is estimated to increase employer participation costs across the LGPS by £1 billion. This increase will wipe out any expected future savings for employers that have been built into the new Scheme design from April 2014

The ending of the NI rebate for a member who earns £20,000 per annum would result in a reduction to take home pay of £203 per year. The outcome might include an increase in opt outs or a higher take up of the 50/50 option. This would reduce short term employer costs but would have an adverse impact on the cashflow and future funding for the scheme.

7.3 If public service pension schemes are required to pay full PI on the GMP this will have major cost implications for the LGPS with an estimated cost falling to employers contributing to MPF of £40m-50m based on the long term CPI assumption adopted for the 2013 actuarial valuation of 2.6% p.a.

7.4 The transfer to Greater Manchester Pension Fund will involve assets in excess of £100m and pension records for hundreds of members. This will place further demands on pension staff and resources at a time of considerable change.

## **8.0 LEGAL IMPLICATIONS**

8.1 Depending on the impending revisions to the scheme regulations relating to governance there may be implications for the Council arising from the necessity to revise the constitution.

## **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 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 and approve a response to the Transforming Rehabilitation Programme consultation subject to the agreement of the Chair of Pensions Committee.

**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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**SUBJECT HISTORY (last 3 years)**

Council Meeting	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2014/2015</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the budget for the financial year 2014/15.
- 1.2 The headline figures are that during the financial year 2014/15, we are estimating that MPF will pay £291m in pensions and receive £246m in contributions from employers and employees. The Fund has a value of £5,796m at 30<sup>th</sup> September 2013 and projected to be £6,183m at September 2014. The proposed administration costs of £18.8m including £13.2m of investment management charges to external managers represent a cost of £151.35 per member of the scheme. Taken separately the external investment management costs are approximately £106.13 per member or 0.21% of total assets on a projected basis.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2014/15 is as follows:

Staffing	Current Structure to be fully staffed throughout year
Investment management Fees	Estimate based on normal market conditions and 50% of investment mandates achieving performance targets.
Rent	Agreed as a charge based on market rates (MPF owns building)
Transport Conferences and Subsistence	Estimated requirements for current year
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements.
Inflation adjustments	CPI 2.7% as at September 2013
Investment Performance	4% bonds 8% equities 50% of performance targets met for active management

- 2.2 This report includes a predicted out-turn for 2013/14. However, due to the volatility in financial markets and issues with billing from certain third party suppliers it is not possible to predict the out-turn with complete accuracy. Therefore some estimates have been used, and it is proposed to report on out-turn at the June meeting of Pensions Committee. The out-turn is at present to be higher than predicted largely due to investment management fees. The budget for 2014/15 is higher at £18.8m to £16.6m in 2013/14 primarily due to higher external investment management fees.
- 2.3 The Fund's major expenditure is on investment management fees. These are mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise substantially. Therefore when this expenditure rises there is a benefit to the Fund in terms of capital appreciation that far outweighs the increase in fees paid. For 2013/14 the out-turn is expected to be significantly higher than the estimate made last year due to investment performance during the year being significantly higher than the long term average. For 2014/15 the budget is around 14% higher for Investment management fees than 2013/14 due largely to changes in valuations as a result of strong performance and improved performance relative to benchmark from active fund managers..
- 2.4 The second highest expenditure is on staffing. The estimates for this allows for increased deficit pension costs for past service and retired members of staff and also for £100,000 of growth for increased administration staffing for new scheme and increased investment resources. The aim of the increased expenditure on internal investment resources is to improve investment returns net of costs, the tax accountant post being an example. The increase to administration staffing is in response to the mounting complexity of the scheme in particular moving to a career average basis whilst retaining the previous schemes. Further reports will follow on staffing if and when extra resources are utilised. The out-turn for staffing in 2013/14 will be lower than budget due to unpaid leave and unfilled vacancies. The unpaid leave reduces the budget by around £40,000.
- 2.5 For premises, the budget has been over spent as the office space taken up by MPF in Castle Chambers has not been consolidated. There will be a further review of operations. There is less urgency on this at present as there are several vacancies in Castle Chambers at present so the Fund would be unlikely to re-let any space vacated immediately. For this reason the budget is slightly higher this year.
- 2.6 There have been some issues of coding, classification and profiling in the areas of transport, supplies and third party payments (excluding investment management fees) which make the estimates for probable out turn unclear at this stage. These will be resolved and reported on in June. The budget for next year for these items is £1.76m in 2014/15 compared to £1.6m in 2013/14. The main reasons for this are increases in costs for Custody, Computer Development and Hardware plus other minor increases, which are partially offset by reductions in Investment Consultancy fees.

- 2.7 For departmental & central support charges, at present the estimates have been left the same as last year, the figure reported to Committee last year was £675,400. The out-turn is predicted to be very close to this figure. However the back office functions of Wirral Council, the administering authority are subject to significant review, with a likely outcome of improved efficiencies. Officers at the Fund are at present continuing to negotiate service level agreements with Wirral support service functions. This process has been delayed due to uncertainties over the proposed shared services arrangements.

### **3.0 RELEVANT RISKS**

- 3.1 The Fund has recently reviewed its Risk Register and identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage investments. This budget provides adequate resources for these two core functions.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements have recently been subject to review with further reviews being undertaken on an on-going basis. As described earlier, the administering authority is also undertaking a review of its back office services with an aim of reducing costs which should result in a decrease in charges to the Fund. For all other expenditure there has been a careful review process culminating in a planning meeting at which the Head of Service approved the proposals for discretionary expenditure in 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 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment income and employee and employer contributions, the full costs are estimated to be £151.35 per member. (Including active contributors, deferred and pensioners). The costs per member at Merseyside Pension Fund are competitive with other pension funds of similar size in both the public and private sector particularly when analysed net of investment performance. Any staffing changes made from current structure will be subsequently reported to Pensions Committee.

### **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 Members approve the budget for 2014/15. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)

12.2 I will report on the out turn for 2013/14 to Pensions Committee in June together with finalised estimates in particular for salary overheads and departmental & central support charges for 2014/15.

## 13.0 REASON FOR RECOMMENDATIONS

13.1 The approval of the budget for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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## APPENDICES

*The budget for 2014/15 is attached as appendix 1 to this report.*

## REFERENCE MATERIAL

Internal working papers were used in the production of this report.

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee :	15 <sup>th</sup> January 2013
Pension Fund Budget	17 <sup>th</sup> January 2012
Pension Fund Budget	11 <sup>th</sup> January 2011

## Appendix 1

<b>Value of the Fund</b>	£5,796m	30/09/2013
<b>Value of the Fund</b>	£6,183m	Projected 30/09 2014
<b>Investment income Received</b>	£95m	Projected 2014/15
<b>Pensions Paid</b>	£291m	Projected 2014/15
<b>Contributions Received</b>	£246m	Projected 2014/15
<b>Active Contributing members</b>	44,707	31 <sup>st</sup> March 2013
<b>Deferred members</b>	34,481	31 <sup>st</sup> March 2013
<b>Pensioners</b>	44,753	31 <sup>st</sup> March 2013
<b>Total Members</b>	123,941	31 <sup>st</sup> March 2013

	<b>Budget 2013/14</b>	<b>Probable Out-Turn 2013/14</b>	<b>Budget 2014/15</b>
	£	£	£
<b>Employees</b>			
Pay, NI and Pension	2,522,638	2,278,115	2,586,345
Training	20,000	13,046	20,000
Other Staffing Costs	85,000	224,899	344,500
	<b>2,627,638</b>	<b>2,516,060</b>	<b>3,011,274</b>
<b>Premises</b>			
Rents	188,193	188,194	214,638
	<b>188,193</b>	<b>188,194</b>	<b>214,638</b>
<b>Transport</b>			
Public Transport Expenses	24,840	9,595	29,830
Car Allowances	3,200	1,712	0
	<b>28,040</b>	<b>11,307</b>	<b>29,830</b>

**Supplies**

Furniture and Office Equipment	25,000	5,605	20,000
Printing and Stationery	75,000	50,954	90,000
Computer Development and Hardware	315,000	77,309	390,000
Postages and Telephones	104,500	95,858	105,800
External Audit	40,000	39,062	41,000
Services and Consultants Fees	590,397	465,774	404,364
Conferences and Subsistence	34,540	33,184	41,320
Subscriptions	96,197	102,010	121,012
Other	65,000	17,078	79,000
	<b>1,345,634</b>	<b>886,834</b>	<b>1,292,496</b>

**Third Party**

Medical Fees	5,000	4,118	8,500
Bank Charges	15,000	4,900	5,000
Investment Management Fees	11,555,999	12,788,800	13,153,617
Custodian Fees	0	72,401	200,000
Actuarial Fees	163,878	164,383	160,000
Other Hired and Contracted Services	80,000	82,148	96,183
	<b>11,819,877</b>	<b>13,116,750</b>	<b>13,623,300</b>

**Recharges**

Inter Departmental Recharges	675,400	676,661	675,400
	<b>675,400</b>	<b>676,661</b>	<b>675,400</b>

**Total Expenditure**

	<b>16,684,782</b>	<b>17,395,805</b>	<b>18,846,937</b>
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**Income**

Fire Service Administration	85,500	85,500	88,500
	<b>85,500</b>	<b>85,500</b>	<b>88,500</b>

**Total Net Expenditure**

	<b>16,599,282</b>	<b>17,310,305</b>	<b>18,758,437</b>
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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>MEMBERS' DEVELOPMENT 2014</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION?</b>	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 2014.

#### 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 19 November 2013, 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 external 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)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>January 2013</b>
<b>Pensions Committee</b>	<b>January 2012</b>
<b>Pensions Committee</b>	<b>January 2011</b>

## **APPENDIX 1**

<b><u>MONTH (2014)</u></b>	<b><u>EVENT</u></b>	<b><u>REPRESENTATION*</u></b>
27-28 February	LGC investment summit, Chester	all members
5-7 March	NAPF Investment Conference	chair
20 March	IMWP – Responsible Investment	all members
May	NAPF local authority conference, Gloucestershire	party spokespersons
June	LGE (LGPS annual trustees conference)	all members
13 June	PIRC Corporate Governance Conference	chair
June	CIPFA conference	chair
4/5 September	LGC investment seminar, Newport	party spokespersons
9 October	IMWP development session	all members
November	Annual Employers Conference, Liverpool	all members
November/December	LGE Fundamentals training days; multiple dates and locations.	all members
3-5 December	LAPFF annual conference, Bournemouth	chair

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

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT POLICY</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION &amp; RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 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 2014/15.

#### 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 15 January 2013.

2.2 The key change arising is that the Head of Pension Fund is designated as the 'Responsible Officer', rather than the Section 151 officer. This decision was made following the changes to Wirral's scheme of delegation and senior management structure, and a review of comparative LGPS funds. CIPFA has stated an intention to publish guidelines on 'the role of the section 151 officer'. This has been delayed and, once available, we will review this document to identify any issues.

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

- a) Change in asset allocation from 1% to 0% as agreed at Pensions Committee 19 November 2013.
- b) The core positions have been deleted, as running minimal cash balances it is envisaged funds will remain in instant access accounts.
- c) As a contingency, it is proposed to put in place a £20m overdraft facility with the Fund's bank
- d) Within schedule 8 weekly cash flows have been updated to daily.

#### 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 has changed from 1% to 0% of Fund assets following the change to the strategic asset allocation approved on 19 November 2013.
- The Fund will run minimal cash balances to pay pensions and meet other obligations.
- The main aims when managing liquid resources are: the security of capital the liquidity of investments matching inflows from lending to predicted outflows, an optimum return on investments commensurate with proper levels of security and liquidity.
- The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2014/15. 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 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 on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely 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 2014/15.

## **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 19 November 2013.

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## **APPENDICES**

The Treasury Management Policy Statement 2014/15 is attached as appendix 1 to this report.

## **REFERENCE MATERIAL**

CIPFA Treasury Management Code of Practice and Guidance Notes.

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Pensions Committee – Treasury Management Policy and Strategy 2011/12	11 January 2011
Pensions Committee – Treasury Management Annual	27 June 2011

Report 2010/11	
Pensions Committee – Treasury Management Policy and Strategy 2012/13	17 January 2012
Pensions Committee – Treasury Management Annual Report 2011/12	25 June 2012
Pensions Committee – Treasury Management Policy and Strategy 2013/14	15 January 2013
Pensions Committee – Treasury Management Annual Report 2012/13	24 June 2013

## **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 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. The responsible officer shall recommend and implement the necessary arrangements. The present arrangements are set out in the schedule (5.6) to this document.
- 13.2 The responsible officer 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 the responsible officer 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

<b>CATEGORY</b>	<b>LIMIT Per Institution/Group</b>
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)	£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.
- 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 (excluding cash at bank), 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 (Lloyds)

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.

### **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 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 the performance of the treasury management function.
- 6.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.
- 6.3 An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Fund's treasury management policy statement and TMPs, will be received by the Pensions Committee.
- 6.4 The IMWP will receive interim reports on treasury management.

**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 cash flows 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 daily 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

20 JANUARY 2014

<b>SUBJECT:</b>	<b>INVESTMENTS IN AD PLANTS</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION?</b> <i>(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)</i>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report seeks approval for the Fund to increase its programme of investments in Anaerobic Digestion Plants up to £60m.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 In March 2012, Committee was informed of an investment into a fund providing the financing for the construction and operation of anaerobic digestion (AD) plants. The plants process food waste and generate biogas reducing landfill requirements. Potentially, initial investments were into contracts for AD plants being tendered by a number of Welsh local authorities.
- 2.2 MPF is currently the sole investor in the fund which has successfully won tenders for two plants in Wales. Construction of the first plant, Biogen Gwyrriad, completed in July on time and on budget and is now in the commissioning phase. Biogen Waen is due to be completed in March this year. Returns are comfortably in line with forecasts.
- 2.3 A third project involving three farm based plants was funded in November 2013 bringing commitments to £23m. Three further projects are close to being finalised. The outlook for the AD market is encouraging. There are still major capital constraints; the regulatory environment continues to be supportive with the tariff/subsidy regime stabilised; greater local authority engagement is being seen; and the pipeline of new opportunities remains good.

#### 3.0 RELEVANT RISKS

- 3.1 The Iona fund is invested in a number of projects involving different counterparties and technologies which provides a good degree of diversification of financial and operational risks.

#### 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 Provisionally, MPF has agreed improved terms for commitments above £23m. Returns from built projects are comfortably in line with forecasts.

## **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 The projects will generate renewable electricity and gas for the national grid and reduce the volumes of waste going to landfill.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 RECOMMENDATION/S**

12.1 That Committee approves an increase in the commitment to the Iona Fund by £37m.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 The projects are anticipated to provide attractive returns to the Fund as well as delivering environmental and sustainable benefits.

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## **APPENDICES**

NONE

## **REFERENCE MATERIAL**

NONE

## **SUBJECT HISTORY (last 3 years)**



<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	June 2013
<b>Pensions Committee</b>	March 2012



## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>NAPF LOCAL AUTHORITY CONFERENCE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>INTERIM DIRECTOR OF FINANCE</b>
<b>KEY DECISION?</b> <i>(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)</i>	NO

#### **1.0 EXECUTIVE SUMMARY**

1.1 This report seeks approval for the Chair to attend the National Association of Pensions Funds Investment Conference, to be held in Edinburgh, on 5-7 March 2014.

#### **2.0 BACKGROUND AND KEY ISSUES**

2.1 Merseyside Pension Fund is a member of the NAPF which represents some 10 million employees in pension schemes. The NAPF seeks to make effective representation to encourage provision as well as sound stewardship of pension fund assets.

2.2 The conference covers a range of topical investment and pensions issues. Speakers include: the Chief Secretary to the Treasury, Lord Smith (Green Investment Bank), Andrew Neil (Journalist & Broadcaster) and Roger Bootle (Capital Economics).

2.3 Accommodation will be required for the nights of 5 and 6 March 2014.

2.4 NAPF member, fund Chairman of Trustees can attend free. The cost for other attendees is £400.

#### **3.0 RELEVANT RISKS**

3.1 The Fund is required to demonstrate that Members of Pensions Committee have been adequately trained. This conference is a recognised training opportunity.

#### **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 Although the cost of registration for the conference for the Chair is nil, additional costs will be travel and two nights' accommodation which will be within subsistence allowances. This can be met from the existing Pension Fund 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 The Committee approves attendance at this conference by the Chair of Pensions Committee.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 The conference forms a part of the Members' development plan approved by Committee at this meeting.

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## **APPENDICES**

NONE

## **REFERENCE MATERIAL**

NONE

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>29 March 2011</b>
<b>Pensions Committee</b>	<b>23 March 2010</b>
<b>Pensions Committee</b>	<b>6 April 2009</b>



## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20TH JANUARY 2014

<b>SUBJECT:</b>	<b>APPOINTMENT OF TRANSITION MANAGER FRAMEWORK</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION &amp; RESOURCES</b>
<b>KEY DECISION?</b> <i>(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)</i>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Members of the appointment under delegated authority of a Transition Manager Framework for Merseyside Pension Fund.
- 1.2 The appendix attached to the report 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 Members first approved the appointment of a Transition Manager Framework for a four year term on 18th June 2009. There was a need to re-tender the Framework, particularly as one of the original participants had withdrawn from that line of business. An open OJEU tender process was carried out (with support from Mercer) and the Strategic Director of Transformation & Resources accepted an officer recommendation under delegated authority to appoint four providers to a new Framework.

#### 3.0 RELEVANT RISKS

- 3.1 Transition events need to be implemented in a timely and orderly fashion to contain transaction costs and mitigate the risk of significant financial loss. Access to a suitable Framework of approved specialist providers removes the need for a lengthy procurement process to be carried out before an appointment can be made.

#### 4.0 OTHER OPTIONS CONSIDERED

- 4.1 None

## **5.0 CONSULTATION**

5.1 None

## **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 None

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

7.1 The cost of any transition event is captured in the net asset value of the transitioned assets.

## **8.0 LEGAL IMPLICATIONS**

8.1 None

## **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 None

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 None

## **12.0 RECOMMENDATION/S**

12.1 That Members note the appointment.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 Use of specialist providers to manage complex transition events is established industry best practice.

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## **APPENDICES**



Exempt Appendix 1 – Selection of Transition Manager Framework

**REFERENCE MATERIAL**

None

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pension Committee</b>	<b>18th June 2009</b>



## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2013

<b>SUBJECT:</b>	<b>INVESTMENT CONTRACT MONITORING</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR</b> <b>TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	NO

#### **EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to inform Members of progress on the review of investment mandates for Japanese, Pacific Rim and Emerging Markets Equities. This report also sets out a plan for a tender exercise for European Equities this year.
- 1.2 Appendix 2 to the report, the JLT proposal 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 Members will be aware that on 20<sup>th</sup> March 2012, Committee approved a schedule for the selection of investment managers This schedule included
  - An interim 3 year review of Japanese, Pacific Rim and Emerging Market equity for 2013. (The mandates of Nomura, Black Rock, Maple Brown, M&G and Amundi.)
  - A tender exercise for European Equities to start in 2014 (The mandates of JP Morgan and Unigestion.)
- 2.2 Members will be aware that there have been several updates on the 3 year review of the mandates above at IMWP (Investment Monitoring Working Party) meetings during the year. The work is close to completion, all field visits and questionnaires are complete and the full reports and appendices will be made available to Members and Advisers on request.
- 2.3 Summary scoring has been completed and is documented in the appendix. The results of this scoring show that for 4 of the mandates the scoring is clearly satisfactory. Therefore the recommendation is that, subject to continued monitoring, these mandates are retained for the remaining 3 years. These mandates have achieved good or satisfactory performance; have remained consistent in their investment strategy; have retained their team; and provided good communication with the internal team and Members; and, importantly, there are no issues arising from operational due diligence.

- 2.4 In the case of Amundi, performance has been unsatisfactory as has communication with officers and Members and consistency of approach. The decision is not clear cut; Amundi claim to have made improvements to their process, although the time period is too short for a full assessment of this. They have improved the client relationship function. The recommendation is that there is further consideration of information by officers and input from independent advisers before a discussion at the IMWP on 19<sup>th</sup> February 2014.
- 2.5 The tender exercise for European Equities was due to commence during 2014. Pressure on internal resources at the Fund has delayed the commencement of the exercise but this is intended to commence early in 2014.
- 2.6 Officers requested proposal from consultants on the manager framework selection list and received 3 replies from JLT, Mercer and bFinance. Following assessment of the proposals on quality and price, JLT were selected.
- 2.7 Appendix 2, the accepted proposal from JLT, sets out the approach for the exercise. The approach is to select managers that produce the highest risk adjusted returns net of fees. A key element of this is to assess the probability of prospective managers achieving the targeted returns. JLT will provide support in documentation for the tender exercise, assessment of returns and at interviews with managers. They will also work with Corporate Procurement Unit to ensure an adequate audit trail of the process. The key feature of the timetable is to present recommendations to Committee at the meeting in June. The other key feature is that the costs charged for the exercise by JLT will be passed on to the managers through the 'manager pays' structure that has been operated by MPF for selection exercises of this nature since 2006.

### **3.0 RELEVANT RISKS**

- 3.1 The Fund's Statement of Investment Principles sets out MPF's approach to risk. The volatility of active returns is a key risk and therefore the selection and monitoring of external Investment Managers is a key area of operations. A key mitigation of this risk is to have a clear and robust process, appropriately resourced. The items in this report are part of that process and therefore part of the mitigation of risk.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 The Fund is required to review and re-tender its investment mandates in order to comply with European Procurement Legislation. Pensions Committee has previously approved a time-table for this.

### **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 The fee disclosed in the exempt appendix is to be charged to the successful managers as indicated in paragraph 2.7. This is a competitive exercise which would target the reduction of the ad valorem fee level for investment management. The absolute level of fees paid is determined by market returns and consequential valuations through the contract period.

7.2 There are no staffing IT or asset implications arising 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 Members note the recommendations for Japanese, Pacific Rim and Emerging Markets equity mandates. The final decision on Amundi will be taken at the IMWP on 19<sup>th</sup> February 2014 and implemented under delegated authority.

12.2 Members note the tender exercise for European Equities

## **13.0 REASON FOR RECOMMENDATIONS**

13.1 The review of contractual arrangements for investment managers by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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## **APPENDICES**

1. The summary scoring for the 5 mandates is attached as an appendix to this report.

2. The proposal from JLT on approach for the exercise is attached as an appendix to this report.

#### **REFERENCE MATERIAL**

Internal working papers were used in the production of this report.

#### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee Investment Contract Monitoring</b>	<b>20<sup>th</sup> March 2012</b>
<b>Pensions Committee Policy for the monitoring of Investment Mandates</b>	<b>31<sup>st</sup> March 2008</b>

Mandate	Score Performance	Score Consistency of Approach	Score Team Retention and Communication	Score Operational due diligence	Total
Nomura	5	5	4	5	19
Black Rock Asia Pac	3	5	4	5	17
Maple Brown	5	5	4	5	19
<b>Amundi</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>11</b>
M&G	5	4	3	5	17

### Scoring Guide

#### Performance (as at September 2013 since inception annualised)

5= more than 1.5% pa against benchmark, 4 = 0.3% to 1.5%pa against benchmark, 3 = 0.3 to -0.3%pa against benchmark 2= -0.3 to -1.5%pa against benchmark, 1 more than -1.5%pa against benchmark

#### Consistency of approach

5= process and philosophy remain as hired and this is validated by Analytics data, 4=minor changes, 3 = some changes and Analytics data is not consistent with manager narrative, 2= significant changes and inconsistencies with Analytics data, 1= fundamental changes and Analytics data does not support manager narrative.

#### Team Retention and Communication

5=Original team in place and good written communications and presentations received well by Members, 4= minor issues, 3= some issues but concerns addressed fully. 2= significant issues not fully addressed by manager, 1= fundamental issues not addressed by manager.

#### Operational due diligence

5= no operational due diligence issues good systems in place, 4= minor issues, 3= some issues but concerns addressed fully. 2= significant issues not fully addressed by manager, 1= fundamental issues not addressed by manager.

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>PROPERTY PORTFOLIO RENT ARREARS AND WRITE OFFS</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to request that Members agree to the write off of £1,033,550.67 of unrecoverable rent arrears from the Fund's property portfolio.
- 1.2 Appendix 1 to the report, (A report from CBRE detailing property rent arrears), 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 As Members will be aware, CBRE are the managing agents for the Fund's property portfolio. Amongst other functions, they have responsibility for the collection of rent and management of arrears. On an annual basis they produce a report on uncollectable arrears which is attached as an appendix to this report.

#### **3.0 RELEVANT RISKS**

- 3.1 Not relevant for this report.

#### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 CBRE considers a number of actions for the recovery of rental arrears before any write off is recommended.

#### **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 The total amount recommended for write off in this report is £1,033,550.67 representing 5.14% of the total annual rental income of £20.1m for 2013/14.

## 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 Pensions Committee approves the write-off of uncollectable property rental income of £1,033,550.67.

## 13.0 REASON/S FOR RECOMMENDATION

13.1 CBRE considers these rental arrears to be irrecoverable. The approval of the write off of irrecoverable rent arrears by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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## APPENDICES

*The report from CBRE is attached as an exempt appendix to this report.*

## REFERENCE MATERIAL

No reference material used in the production of this report.

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<b>Pensions Committee :</b>	
Write off of property Rental Arrears	15 <sup>th</sup> January 2013
Write off of property Rental Arrears	17 <sup>th</sup> January 2012
Write off of property Rental Arrears	11 <sup>th</sup> January 2011



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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>MINUTES OF THE INVESTMENT MONITORING WORKING PARTY</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### **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 20 November 2013.
- 1.2 The appendices to the report, the minutes of the IMWP on 20 November 2013, 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 at least 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 27<sup>th</sup> June 2011.

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## **APPENDICES**

Exempt Appendix 1

**REFERENCE MATERIAL**

NONE

**SUBJECT HISTORY (last 3 years)**

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

**Minutes of Investment Monitoring Working Party,**  
**20<sup>th</sup> November 2013**

***In attendance:***

(Chair) Councillor Patricia Glasman (WBC)	Peter Wallach (Head of MPF)
Councillor Geoffrey Watt (WBC)	Susannah Friar (Investment Manager)
Councillor George Davies (WBC)	Owen Thorne (Investment Officer)
Councillor Adrian Jones (WBC)	Leyland Otter (Investment Manager)
Paul Wiggins (Unison)	Allister Goulding (Investment Manager)
Councillor Harry Smith (WBC)	Noel Mills (Independent Advisor)
Councillor Paul Doughty (WBC)	Rohan Worall (Independent Advisor)
Emily McGuire (Aon Hewitt)	Adam Williamson (Investment Assistant)
Louis Hill (Aon Hewitt)	Greg Campbell (Investment Manager)
	Emma Jones (PA to Head of MPF)

***Apologies were received from:***

Councillor Cherry Povall (WBC)	Councillor Tom Harney (WBC)
Councillor Ann McLachlan (WBC)	Councillor Norman Keats (WBC)

Councillor Mike Hornby (WBC)	Phil Goodwin (Unison)
John Fulham (St Helens BC)	Patrick McCarthy (Representative of other non-district Employers)

### **Declarations of interest**

Councillor Pat Glasman (PG), Councillor George Davies (GD) and Councillor Paul Doughty (PD) declared an interest in Merseyside Pension Fund.

PG welcomed Councillor Paul Doughty to the Pensions Committee and the IMWP.



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

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