Wiltshire Council
Where everybody matters

AGENDA

Meeting:	**WILTSHIRE PENSION FUND COMMITTEE**
Place:	Committee Room 3, County Hall, Trowbridge
Date:	Thursday 25 February 2010
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Roger Bishton, of Democratic and Members' Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 713035 or email roger.bishton@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Briefing Arrangements:	Date	Time	Place
	Thursday, 25/02/10	9.00am	Office of the Chief Finance Officer

PLEASE NOTE THAT THE MEETING WILL BE PRECEDED BY SHORT TRAINING SESSION STARTING AT 9.45AM.

Membership:

Wiltshire County Council Members
Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice-Chairman)
Cllr David Jenkins
Cllr Jeff Osborn
Cllr Sheila Parker

Substitute Members
Cllr Fleur de Rhe-Philipe
Cllr Bill Moss
Cllr Mark Packard
Cllr John Smale

Swindon Borough Council Members
Cllr Des Moffatt
Cllr Peter Stoddart

Substitute Member
Cllr Mark Edwards

Employer Body Representatives
Ms Irlene Cooper
Mr Tim Jackson

Part 1

Items to be considered when the meeting is open to the public

1. **Membership Changes**

2. **Attendance of Non-Members of the Committee**

3. **Apologies for Absence**

4. **Minutes**

   To confirm the minutes of the meeting held on 19 November 2009 *(copy attached)*.

5. **Chairman's Welcome, Introduction and Announcements**

6. **Declarations of Interest**

   Councillors are requested to declare any personal or prejudicial interests or dispensations granted by the Standards Committee.

7. **Public Participation**

   The Council welcomes contributions from members of the public.

   If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

   Members of the public wishing to ask a question should give written notice (including details of any question) to the officer named above by **12.00noon on Tuesday 23 February 2010**.

8. **KPMG Pension Fund Benchmarking**

   A report prepared by the Fund's Auditors KPMG is circulated and Gemma Broom (KPMG) will be at the meeting to present and answer questions.

9. **Pension Fund Risk Register**

An update from the Chief Finance Officer on the Wiltshire Pension Fund Risk Register is circulated for Members' consideration.

10. **Cessation Policy**

A report prepared by the Chief Finance Officer outlining a proposed Cessation Policy to deal with the issues that arise when employers leave the Fund is circulated for Members' consideration.

11. **Treasury Management Strategy**

A report prepared by the Chief Finance Officer outlining a proposed Treasury Management Strategy for the Fund is circulated for Members' consideration.

12. **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on Thursday 13 May 2010.

13. **Urgent items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

14. **Exclusion of the Public**

To consider passing the following resolution:-

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 15 – 21 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Part II

Item during whose consideration it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

15. **Edinburgh Partners - Review of 2009 and Plans for the Future**

A confidential Annual Report from Edinburgh Partners is attached and Members are asked to consider this along with the verbal report at the meeting.

16. **Baillie Gifford - Review of 2009 and Plans for the Future**

A confidential Annual Report from Baillie Gifford is attached and Members are asked to consider this along with the verbal report at the meeting.

17. **Quarterly Progress Report**

A confidential report on the investment activity and performance of the Fund for the year to 31 December 2009 is attached for Members' consideration.

18. **Review of Investment Managers**

A confidential report by the Chief Finance Officer is circulated updating Members in relation to the position of individual investment managers.

19. **Pension Fund Administration Budget 2010-2011**

A confidential report by the Chief Finance Officer is circulated proposing an administration budget for the Fund for 2010-11.

20. **Appointment of New AVC Provider**

A confidential report by the Chief Finance Officer is circulated proposing the appointment of a new AVC provider.

21. **Appointment of Independent Pensions Adviser**

A confidential report by the Chief Finance Officer is circulated regarding the appointment of an Independent Pensions Advisor.

Wiltshire Council
Where everybody matters

WILTSHIRE PENSION FUND COMMITTEE

MINUTES of a MEETING of the WILTSHIRE PENSION FUND COMMITTEE held at COUNTY HALL, TROWBRIDGE on THURSDAY 19 NOVEMBER 2009.

PRESENT:

Cllr Tony Deane (Chairman), Cllr Charles Howard, Cllr David Jenkins, Cllr Jeff Osborn, Cllr Sheila Parker.

Cllr Bill Moss and Cllr Mark Packard also attended the meeting.

Also in attendance:

Mr Mike Pankiewicz	Trade Union Representative
Mr Tony Gravier	Trade Union Representative

Representing Hymans Robertson

Mr Paul Potter

Representing ING Real Estate

Mr Mark Bunny
Mr Max Johnson

Representing Record Currency Management

Mr Ian Harrison
Mr Dmitri Tikhonov

37. **Apologies** Apologies for absence were received from Mr Tim Jackson, Cllr Des Moffatt and Cllr Peter Stoddart.

38. **Minutes of Previous Meeting**

Resolved: To confirm and sign the minutes of the Committee meeting held on 3 September 2009.

39. **Wiltshire Pension Fund Risk Register – Quarterly Report** The Committee received a report by the Chief Finance Officer which gave an update in relation to changes to the Fund's Risk Register. It was noted that no items had changed since the last meeting of this Committee but it was pointed out that the concerns in relation to Risk PEN002 ("Failure to collect and account for contributions from employers and employees on time") remained in respect of Wiltshire Council. This was due to ongoing reconciliation issues following implementation of SAP but these issues were being actively worked on.

Resolved: To note the update of the Risk Register.

40. **Members' Training Plan** Consideration was given to a report by the Chief Finance Officer which sought approval to a Members' Training Plan. This Plan had been drawn up following an assessment of Members' training needs carried out at a workshop seminar on 5 November 2009.

During discussion, Members of the Committee expressed the view that different methods of training should be tried out and that a short 40 minute workshop be held immediately before the next meeting of the Committee, starting at 9.45am.

Resolved: To approve the Members' Training Plan as submitted.

41. **Wiltshire Pension Fund Administration Strategy** On considering a report by the Chief Finance Officer,

RESOLVED:

(1) To approve the Wiltshire Pension Fund Administration Strategy.

(2) To note that the Officers would be presenting an interim report to the Committee at the May 2010 meeting and a detailed report after the Strategy had been in operation for six months (September 2010 meeting).

42. **Date of Next Meeting**

Resolved: To note that the next regular meeting of the Committee would be held on Thursday 25 February 2010 at 10.30am, to be preceded by a short training seminar at 9.45am.

43. **Exclusion of the Public**

Resolved: In accordance with Section 100A(4) of the Local Government Act 1972, to exclude the public from the meeting for the business specified in Minute Nos. 44 – 47 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

44. **Additional Committee Member** On considering a confidential report by the Chief Finance Officer,

Resolved:

(1) To note that the Wiltshire and Swindon UNISON branches had both agreed to the request that their representatives on the Wiltshire Pension Fund Committee in future should represent deferred and pensioner members' interests at the Committee in addition to active members.

(2) To agree that the Wiltshire College candidate for the vacant place on the Committee be invited for an informal discussion with the Chairman, Vice-Chairman and Officers and that, subject to the views of the interviewers, the candidate be appointed to serve initially until May 2013 (the remaining life of the present Council) and then be reviewed.

45. **Quarterly Progress Report** Consideration was given to a confidential report by BNY Mellon on investment activity and performance of the Fund for the quarter to 30 September 2009 together with a review of investment managers' performance for the same period prepared by Hymans Robertson.

Resolved: To note the Fund's investment activity and performance.

46. **ING Real Estate** The Committee considered the Annual Report by ING Real Estate which outlined action taken during the past year and policy for the next period.

Mr Mark Bunny and Mr Max Johnson answered questions concerning the report.

Resolved: To note the information contained in the report and the investment policy proposals as detailed by ING Real Estate.

47. **<u>Record Currency Management</u>** The Committee considered the Annual Report by Record Currency Management which outlined action taken during the past year and policy for the next period.

Mr Ian Harrison and Mr Dmitri Tikhonov answered questions concerning the report whereupon they left the meeting.

<u>Resolved</u>:

(1) To note the information contained in the report and the investment policy proposals as detailed by Record Currency Management.

(2) To add no further funds to the Record Currency Alpha – Cash Plus Fund mandate by way of rebalancing which will be reviewed in three months time.

(Duration of meeting: 10.30am – 1.25pm)

The Officer who has produced these minutes is Roger Bishton, Democratic & Members' Services, direct line (01225) 713035 or e-mail roger.bishton@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115.

PENSIONS

Wiltshire Pension Fund

KPMG Pension Schemes Financial Controls Peer Group Comparison

16 February 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Introduction

Purpose

The purpose of this document is to provide a high level overview of how your scheme's financial control environment compares to its peer group.

We hope that you find the document a useful comparison tool. We would be happy to discuss further any of the details within the document with the Pension Committee and management.

Source of data

The data has been collected from the results of a survey completed for KPMG's largest pension scheme audit clients, with assets over £1billion.

The peer group results are not best or recommended practice but are the average scores for the peer group.

Results

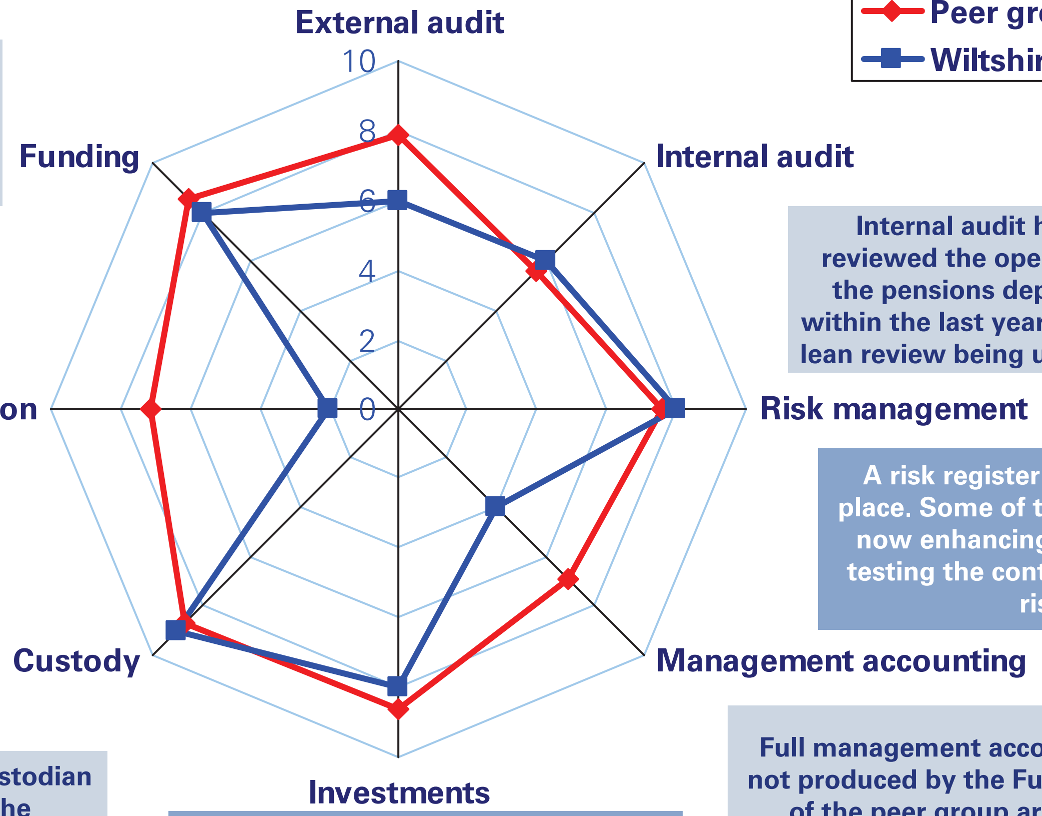
The survey covers the following key areas:

- Scheme Governance
- Dealing with Members: Defined Benefit
- Investments: Segregated Funds
- Investments: Pooled Investment Vehicles
- Scheme Accounting

Scheme Governance

The Fund does not have a separate audit committee to monitor the performance of its auditors. The decision to appoint and review the Fund's auditors lies with the Audit Commission.

The cost to the tax payer is regularly assessed based on the funding level of the Fund.



Internal audit has not reviewed the operations of the pensions department within the last year due to the lean review being undertaken.

Many schemes within the peer group have a separate administration committee which monitors administration however the Fund does not. The membership data of the Fund is only reconciled annually where as the schemes within the peer group complete this more frequently.

A risk register has been put in place. Some of the peer group are now enhancing this process by testing the controls over the key risks.

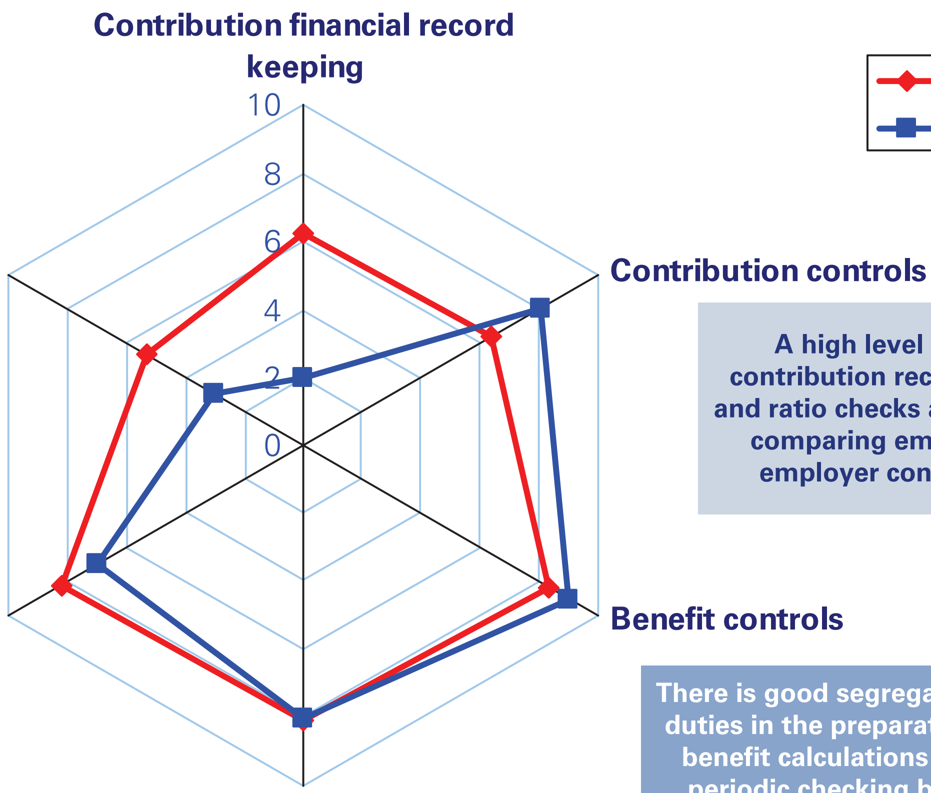
Full management accounts are not produced by the Fund. Many of the peer group are now completing at least bi-annual management accounts.

The Fund uses a global custodian for its investments. The agreement with the custodian and their performance is monitored by the Pensions Department and Wiltshire Pension Fund Committee.

Some schemes within the peer group have a separate investment sub-committee to monitor investments. Currently the Fund does not have this arrangement however investments are a key focus of the pensions committee.

Dealings with Members: Defined Benefit

Member active records are only reconciled to payroll annually.



A high level review of contribution receipts is done and ratio checks are completed comparing employee and employer contributions.

There is good segregation of duties in the preparation of benefit calculations with periodic checking being completed over these calculations.

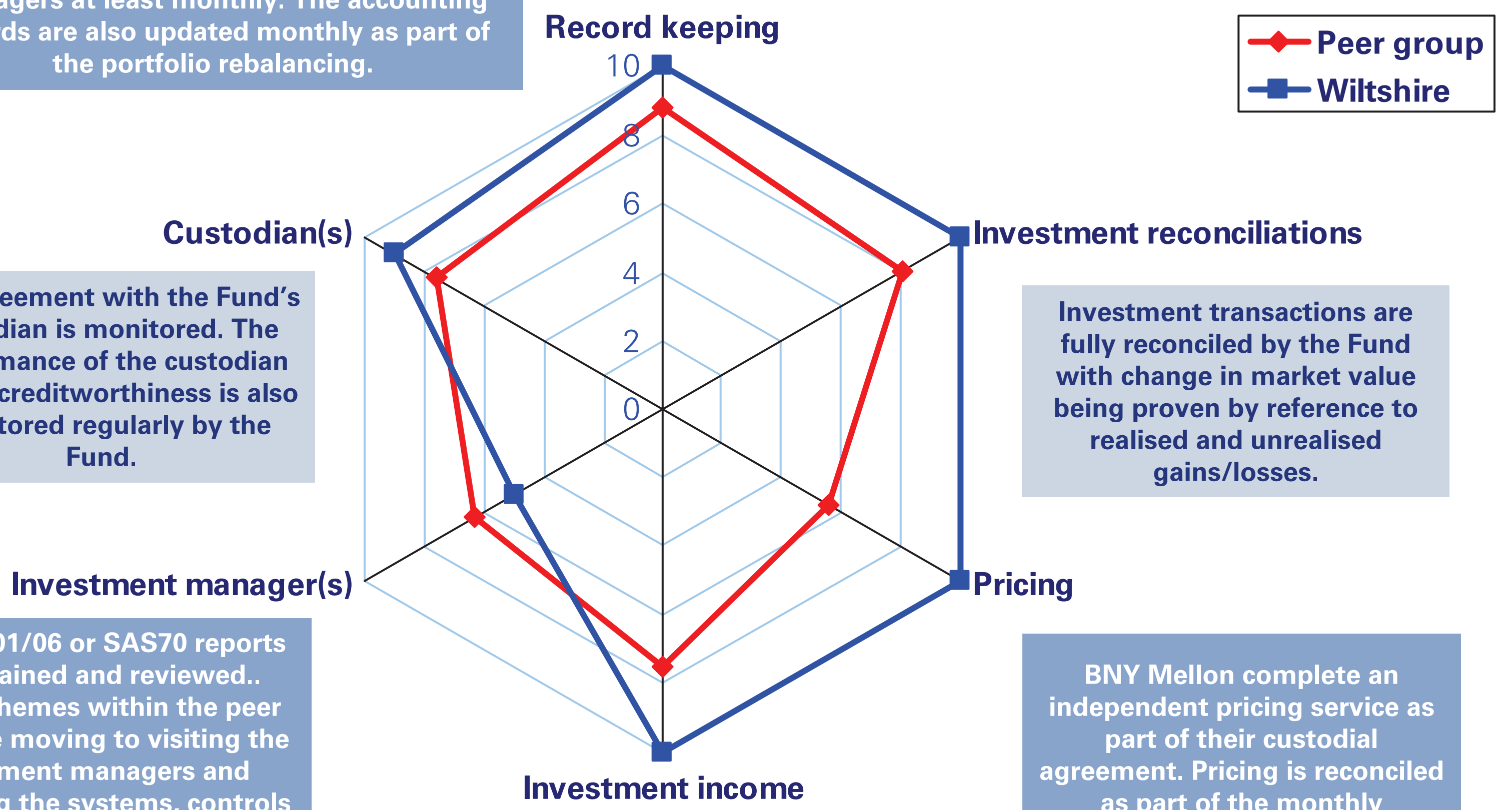
Pensioner payroll is reconciled monthly. The Fund also completes an annual check over the existence of its pensioners using the national fraud initiative.

Some schemes find it easier to control membership if they reconcile movements more frequently than annually. Currently the Fund reconciles the data annually.

Reliance is placed on the AVC providers to maintain the relevant information as the AVC arrangements do not form part of LGPS.

Investments: Segregated Funds

The Fund uses a global custodian who reconciles the holdings with the investment managers at least monthly. The accounting records are also updated monthly as part of the portfolio rebalancing.



The agreement with the Fund's custodian is monitored. The performance of the custodian and its creditworthiness is also monitored regularly by the Fund.

Investment transactions are fully reconciled by the Fund with change in market value being proven by reference to realised and unrealised gains/losses.

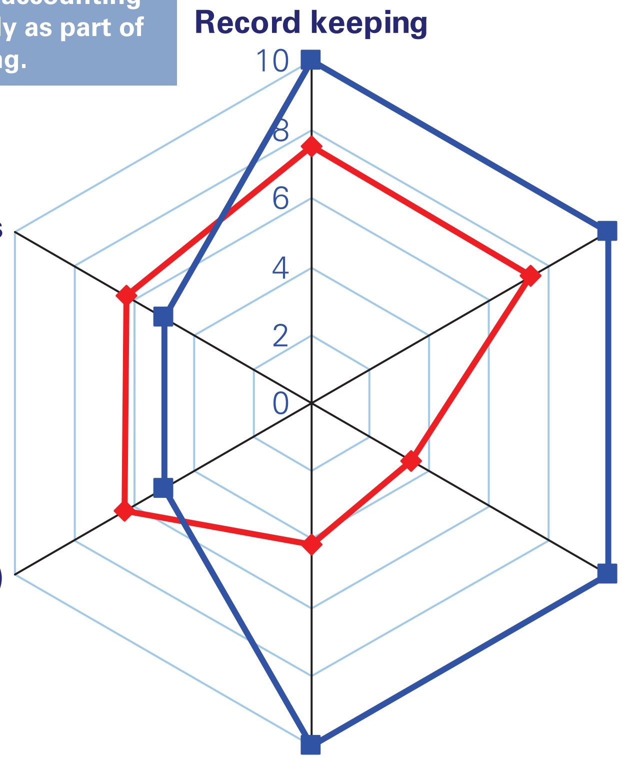
The AAF01/06 or SAS70 reports are obtained and reviewed.. Some schemes within the peer group are moving to visiting the investment managers and discussing the systems, controls and exceptions in relation their scheme.

BNY Mellon is used to collect investment income. BNY's cash records are agreed to the investment manager records as part of the monthly reconciliations completed.

BNY Mellon complete an independent pricing service as part of their custodial agreement. Pricing is reconciled as part of the monthly reconciliation procedure.

Investments: Pooled Investment Vehicles

The Fund uses a global custodian who reconciles the holdings with the investment managers at least monthly. The accounting records are also updated monthly as part of the portfolio rebalancing.



The Fund reconciles the investment units for all pooled investment vehicles on a monthly basis.

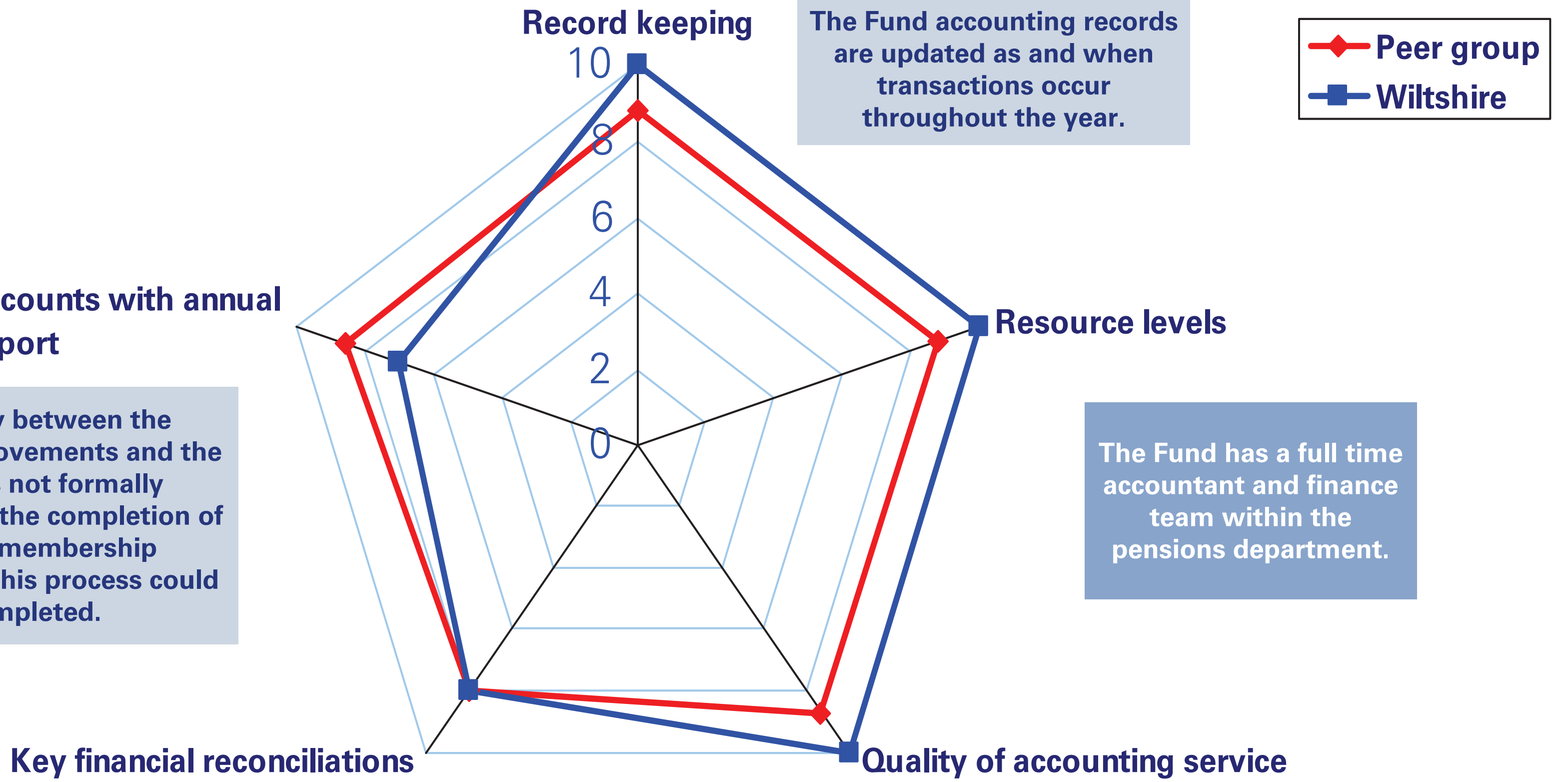
The set up of the pooled funds in terms of whether they have an independent manager, administrator and custodian is reviewed informally. Some schemes within the peer group are now reviewing this on a formal basis where a substantial amount of their portfolio within a pooled vehicle.

The AAF01/06 or SAS70 reports are obtained and reviewed. Some schemes within the peer group are moving to visiting the investment managers and discussing the systems, controls and exceptions in relation their scheme.

Audited accounts are obtained and reviewed for qualifications and issues for all pooled investment funds that issue them.

The AAF01/06 or SAS70 reports are obtained and reviewed. For issues regarding pricing some schemes within the peer group are moving to visiting the investment managers and discussing the systems, controls and exceptions over pricing. They are also obtaining an understanding of the underlying portfolios within the pools.

Scheme Accounting



The Fund accounting records are updated as and when transactions occur throughout the year.

The Fund has a full time accountant and finance team within the pensions department.

The Fund accountant questions transactions, prepares full compliant accounts and there are few, if any, audit adjustments.

Key reconciliations are completed by the finance team for contributions, investments and pensioner payroll.

Consistency between the membership movements and the accounts is not formally reviewed. With the completion of a detailed membership reconciliation, this process could be completed.

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WILTSHIRE COUNCIL **AGENDA ITEM NO. 9**

WILTSHIRE PENSION FUND COMMITTEE
25 February 2010

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. Members requested that the highlights, particularly upward/downward movements in individual risks, be reported back to the Committee on a quarterly basis.

Key Considerations for the Committee / Risk Assessment / Financial Implications

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).

4. Three items have changed since the last report to this Committee on 19 November 2009:

    a) Risk PEN002 ("Failure to collect and account for contributions from employers and employees on time") rose from Amber to Red as the Fund still did not have a detailed analysis of the employees' and employers' contributions paid over by Wiltshire Council when the Risk Register was updated on 31 January 2010. A report has now been received and at the time of writing it is aimed to achieve a reconciliation of contributions payable by Wiltshire Council for 2009-10 in time for the start of the interim audit work by KPMG shortly.

    b) Risk PEN011 ("Lack of expertise on Pension Fund Committee or amongst officers") has risen from Green to Amber, as a result of the recent launch of the CIPFA Local Government Pension Fund Skills Framework, from which it is clear that further work is needed on member training. A report on the Framework will be brought to a future meeting of this Committee.

    c) Risk PEN012 ("Over-reliance on key officers") has risen from Green to Amber due to the imminent departure of David Broome as Head of Pensions. However, a transition plan is in place to achieve an efficient and orderly handover of responsibilities and knowledge to his replacement David Anthony.

Environmental Impacts of the Proposals

5. There no known environmental impact of this report.

Proposals

6. The Committee is asked to note the update of the Risk Register.

MARTIN DONOVAN
Chief Finance Officer

Report Author: David Broome, Head of Pensions.

Unpublished documents relied upon in the production of this report: NONE

WILTSHIRE PENSION FUND RISK REGISTER - JANUARY 2010 APPENDIX

	NAME OF RISK	RISK CATEGORY	Scope of Risk: CAUSE OF RISK	Scope of Risk: IMPACT OF RISK	OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING: Impact	CURRENT RISK RATING: Likelihood	CURRENT RISK RATING: Risk Score	TARGET RISK RATING: Impact	TARGET RISK RATING: Likelihood	TARGET RISK RATING: Risk Score	INHERENT RISK RATING: Impact	INHERENT RISK RATING: Likelihood	INHERENT RISK RATING: Risk Score	CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of AXISe/ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	Martin Summers	David Broome	2	2	4	2	2	4	2	2	4	Robust maintenance and update of AXISe/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	None	31 January 2010	4	→
PEN002	**Failure to collect and account for contributions from employers and employees on time**	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	David Broome	3	4	12	2	1	2	2	1	2	Robust maintenance and update of AXISe/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	At the date of the assessment, the Fund still does not have a breakdown of contributions from Wiltshire Council (WC) for 2009-10. If unresolved, this will have implications for the year-end audit. WC officers are working to resolve it.	31 January 2010	12	↑
PEN003	**Insufficient funds to meet liabilities as they fall due**	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. However, this would not conceivably be an issue for the Wiltshire Pension Fund for many years to come, because it is currently "immature" and very cashflow positive.	David Broome	David Broome	4	1	4	4	1	4	4	1	4	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	None	31 January 2010	4	→
PEN004	**Inability to keep service going due to loss of main office, computer system or staff**	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	Andy Cunningham	David Broome	4	2	8	4	1	4	4	1	4	Business Continuity Plan in place	Fire Proof Safe required for microfiches - this is being investigated. WC's additional measures in place for Swine Flu.	31 January 2010	8	→
PEN005	**Loss of funds through fraud or misappropriation**	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	David Broome	4	1	4	4	1	4	4	1	4	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	None	31 January 2010	4	→
PEN006	**Significant rises in employer contributions due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Broome / Andy Cunningham	David Broome	4	3	12	3	2	6	3	2	6	Longevity and bond yields are really beyond the control of the Fund. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (eg. early retirements, augmented service, etc).	Quarterly monitoring of movements in liabilities is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates	31 January 2010	12	→

	NAME OF RISK	RISK CATEGORY	Scope of Risk: CAUSE OF RISK	Scope of Risk: IMPACT OF RISK	OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
							Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score					
PEN007	**Significant rises in employer contributions due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	David Broome	3	4	12	3	2	6	3	2	6	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	Quarterly monitoring of movements in investment is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates.	31 January 2010	12	→
PEN008	**Failure to comply with LGPS and other regulations**	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	New Pensions Manager / David Anthony	David Broome	2	2	4	2	1	2	2	1	2	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	A close eye is being kept on the AXISe system at present as it is some way behind some of the recent regulatory and actuarial changes, which is necessitating some manual intervention.	31 January 2010	4	→
PEN009	**Failure to hold personal data securely**	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retension, disposal, backup and recovery policies and procedures.	Poor data lost or compromised	Tim O'Connor	David Broome	2	2	4	2	1	2	3	2	6	Compliance with Wiltshire Council's Data Protection & IT Policies.	It is intended to do a full data protection audit for the Fund shortly.	31 January 2010	4	→
PEN010	**Failure to keep pension records up-to-date and accurate**	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	Tim O'Connor	David Broome	3	2	6	2	1	2	3	3	9	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (eg. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative, LEAN Review looking at all ways to collect and input "clean data".	We are always looking for new ways to improve the quality of the data that we collect and hold. This is a particular area for continuous development.	31 January 2010	6	→
PEN011	**Lack of expertise on Pension Fund Committee or amongst officers**	Professional judgement & activities	Lack of training and continuous professional development	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments	David Broome	David Broome	3	2	6	2	1	2	3	3	9	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independant advisors too.	Officers are being more proactive with the new Committee from June 2009 to ensure that members have as many opportunities as possible to gain knowledge that will help in the carrying out of their Pension Fund Committee duties. However, there is a need for further work in this area following the recent launch of the CIPFA Local Government Pension Fund Skills Framework for both members and officers.	31 January 2010	6	↑

	NAME OF RISK	RISK CATEGORY	Scope of Risk		OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
			CAUSE OF RISK	IMPACT OF RISK			Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score					
PEN012	**Over-reliance on key officers**	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Broome	David Broome	2	4	8	2	1	2	2	3	6	Key people in the Section are seeking to transfer specialist knowledge to colleagues and recent structural changes are helping with this. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	David Broome (the Head of Pensions) is leaving at the end of February 2010. A transition plan is in place to achieve an efficient and orderly handover of responsibilities and knowledge.	31 January 2010	8	↑
PEN013	**Failure to communicate properly with stakeholders**	Stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor and they may misadvise their employees.	Nikki Barnes & Andy Cunningham	David Broome	2	2	4	2	1	2	2	3	6	The Fund has a dedicated Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	None	31 January 2010	4	→
PEN014	**Failure to provide the service in accordance with sound equality principles**	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Broome	David Broome	2	1	2	2	1	2	2	2	4	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	None	31 January 2010	2	→

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WILTSHIRE COUNCIL **AGENDA ITEM NO. 10**

WILTSHIRE PENSION FUND COMMITTEE
25 February 2010

EMPLOYER CESSATION POLICY

Purpose of the Report

1. The purpose of this report is to seek Members' approval for the implementation of a Wiltshire Pension Fund Employer Cessation Policy.

Background

2. Under the Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") which came into force on 1 April 2008 in England and Wales, when an Admitted Body ceases active participation in a Local Government Pension Fund, the funding position of that particular employer needs to be re-evaluated by the Fund's actuary. This normally occurs when the Admitted Body in question has no remaining active (contributing) members.

3. Under the Regulations, any deficit occurring should be recovered from the Admitted Body, but there is currently no legal provision for paying back any surplus. However, the Regulations do not stipulate the basis or timeframe that funds shall use to recover the deficit.

4. Historically, Wiltshire Pension Fund have experienced few cessation situations, but in the light of an increased number recently, along with the complications surrounding these and the potential for more in the future, officers feel that a clear policy is needed to reduce risk to the Fund and to ensure a consistent and fair approach to different cessations as they occur.

5. The draft Employer Cessation Policy (Appendix) has been produced following discussions and consultation with Hymans Robertson.

Considerations for the Committee

The Wiltshire Approach

6. By way of introduction, it is worth explaining the different types of employer within the Fund:

   a. Scheduled Bodies These are typically 1st and 2nd tier local authorities, but the category also includes some ex-publicly owned bus companies, and more recently, Academy Schools. Employees of these organisations have automatic right of membership of the LGPS.

   b. Resolution Bodies These are Town and Parish Councils where their Council has formally resolved to allow membership of the LGPS for all or some of their employees.

   c. Admitted Bodies This category includes all other bodies and membership of the Scheme is in accordance with an admission agreement between the employer and the Fund. This group breaks down into two categories:

      i. *Transferee Admission Bodies (TAB)* – These are typically either private sector companies or charities which are entitled to join the LGPS as a result of winning contracts from existing Scheduled Bodies within the Fund. There is a statutory

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requirement for the outsourcing employer to stand guarantor for any liabilities that the TAB defaults on the Fund.

ii. *Community Admission Bodies (CAB)* – These are organisations that have a so-called "community of interest" with local government. They are typically housing associations, or small charities. These charities are arguably the highest risk group of employers, because they tend to be small, do not have tax-raising powers and are not usually backed by a guarantor for historic reasons. However, under the Fund's more recent admissions policy, it would be unusual to admit a CAB without a guarantor.

7. Of the above groups:

   a. Scheduled Bodies tend not to cease as employers of the Fund (because their members have a legal right to be in the LGPS), unless there is an organisational restructuring, in which case there is highly likely to be a "successor body" to take on the liabilities.

   b. Resolution Bodies from the group of approximately 25 in the Fund can occasionally cease, but as they are pooled for funding and contribution rate purposes (ie. they share the risk as if they are one employer), the loss of one does not cause a cessation situation.

8. However, the situation for Admitted Bodies is different and the rest of this paper focuses on them. The Admitted Bodies currently in the Fund can be placed into three groups:

   a. Transferee Admission Bodies (TAB) with a statutory guarantor in place.

   b. Community Admission Bodies (CAB) with a contractual guarantor in place.

   c. Community Admission Bodies (CAB) without a guarantor in place.

9. The significance of the distinction between these categories is important in terms of coverage by the Regulations and the amount of potential risk posed to the Fund. Where a guarantee is in place (ie. 8a and 8b), the Fund avoids the potential risk of the Admitted Body defaulting on payment.

10. The presence of a guarantor, whether statutory or contractual, allows the Fund to take a more relaxed attitude to the valuation of any outstanding deficit at the point of cessation, because there is much more certainty of recovery. This flexibility can take a number of forms:

    a. A longer spreading period can be allowed for recovery of the deficit (up to 14 years).

    b. Less allowance can be built in for the members living longer than currently expected, because there will be somewhere to go for a "top-up" in years to come, should there be significant improvements in longevity.

    c. A less risk-averse approach can be taken to valuing the liabilities, which means that allowance is made for higher investment performance from equities (compared to "risk-free" bonds) to help reduce the deficit.

    If the full flexibility from a, b and c above were to be used, the valuation would be akin to an "ongoing' basis", as in the Triennial Actuarial Valuation.

11. In the event of no guarantor being in place, the Fund needs to take a more risk-averse position, because in the event of the Admitted Body defaulting on payments, the remaining deficit would be spread across all the other (unrelated) employers in the Fund.

Where there in no guarantor, the starting point is a “no risk” cessation valuation, meaning no allowance for immediate payment, maximum allowance for longevity improvements and no allowance for investment performance from equities to help recover the deficit (ie. “gilts basis).

12. To avoid this, a provision is included for former admission bodies to obtain a formal agreement from another Scheme Employer (ie. Scheduled Body) to act as a guarantor for the purpose of the cessation.

13. However, failing this, the proposed policy does allow some flexibility where there is a risk of pushing the employer into insolvency by adopting the “gilts” basis, even after allowing for spreading period. In this case, with the prior agreement of the Chairman, Vice Chairman and Chief Finance Officer, the Head of Pensions may allow the cessation valuation to be performed on a set of financial assumptions that are up to half-way between the ongoing and gilts bases. For the avoidance of doubt, in this situation the increased provision for future mortality improvements beyond that adopted for the previous formal actuarial valuation would be included.

14. The draft policy also deals with the policy on “orphaned” liabilities (which don’t cease until the last pensioner dies) and the associated investment assets. This is a situation that arises when the former admission body no longer exists or there is no longer any legal recourse to them. In summary, another employer within the Fund (usually the guarantor) will be sought to take these “orphans” into their valuation group for the purposes of calculating funding levels and contribution rates.

Environmental Impact of the Proposal

15. There is no known environmental impact of this proposal.

Financial Considerations & Risk Assessment

16. The core objective of this Policy is to reduce financial risk to the Fund and its constituent employers in a way that also manages the risk for the former Admitted Body.

Reasons for Proposals

17. This is a significant Policy, covering what can be an area of considerable cost for departing employers. The draft Employer Cessation Policy is proposed to deal with each potential cessation scenario, with the emphasis on reducing risk to the Fund, ensuring consistency, transparency and fairness for all employers and providing a framework under which the employers can be pay for deficit on a more flexible basis.

Proposals

18. The Committee is asked to approve the Wiltshire Pension Fund Cessation Policy, which will take immediate effect.

MARTIN DONOVAN
Chief Finance Officer

Report Author: Andy Cunningham, Employer Relationship Manager.

Unpublished documents relied upon in the production of this report: NONE

WILTSHIRE PENSION FUND – ADMISSION BODY CESSATION POLICY

1. Introduction

This is the policy of the Wiltshire Pension Fund ("the Fund") as regards the treatment of admission bodies on termination of their admission. It covers the methodology for calculation and payment of any deficit on leaving the Fund (via a "cessation valuation").

It has been prepared by the Administering Authority, in collaboration with the Fund's Actuary, Hymans Robertson LLP. This policy replaces all previous policies on employer termination and is effective from 1st March 2010.

This policy will be reviewed at least every three years following triennial valuations or following changes in the Local Government Pension Scheme Regulations ("the Regulations") pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Andy Cunningham, Employer Relationship Manager, in the first instance at andrew.cunningham@wiltshire.gov.uk or on 01225 713612.

2. Cessation of Admission Agreement

Organisations which are admission bodies within the Fund cease when they no longer have any active members within the Wiltshire Pension Fund. This happens for a number of reasons, typically:

a) The last active member of the Fund has left/retired and the employer does not wish to admit any more employees.

b) The relevant employees are transferring to another employer (eg. because the employer lost the contract).

c) The employer ceases to exist (eg. goes in liquidation or is subsumed into another organisation).

When an employer ceases, the Regulations require that a cessation valuation is carried out. The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund.

In the event that the employer is in surplus, there is currently no mechanism by which this surplus can be repaid by the Fund. If an employer is aware that it will be leaving the Fund in the future, it should alert the Administering Authority and request an indicative cessation valuation under Regulation 34(4) of the Local Government Pension Scheme (Administration) Regulations 2008. If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate.

3. Recovery of Deficits

Turning to deficits, the simplest (but most uncommon) scenario is where employees transfer to another employer ("successor body") within the Fund. In this case, the successor body would take responsibility for the legacy liabilities and any funding deficits that exist on cessation of the original admission body.

In the event of the admission body going into liquidation, the liquidators would be contacted with a view to extracting as much of the cessation deficit from the proceeds of the business as possible.

However, more commonly the first port of call for recovery of the deficit is the ceasing admission body itself and only in the final event of failure to recover from this source would other scenarios be explored. Typically this is a "guarantor", which might already exist under the terms of the admission agreement or might be sought (usually the original ceding employer) to meet the deficit that cannot be recovered from the admission body itself.

Failing that, where the ceasing admission body cannot pay the cessation valuation and there is no successor body or guarantor in place (for instance, this could apply in the case of historic admission agreements set up some time ago), the deficit of the admission body would fall on the Fund as a whole, which effectively means all employers in the Fund.

4. Calculation of Deficit

It is the Fund's policy that the determination of any surplus or deficit on termination will be carried out as at the date that the final active member leaves/retires and should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in the future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

4.1. Transferee Admission Bodies (TABs)

The Regulations require that the contribution rate for the Scheme Employer who awarded the original contract is amended on termination should there be any unfunded liabilities remaining. Therefore the original awarding employer is the successor body for any legacy liabilities on cessation and any remaining deficit falls to that employer alone. The Fund's policy is to carry out the cessation valuation in this situation on an "ongoing" approach in line with the long term actuarial valuation basis from the last valuation (updated for current market conditions), as there is no requirement to protect the other employers in the Fund. If the admission agreement for a TAB is terminated earlier than the contract period set out in the agreement, then the Administering Authority reserve the right to perform the cessation valuation on an alternative basis as agreed with the original awarding authority.

4.2. Community Admission Bodies (CABs)

The cessation of a CAB can fall under any of scenarios a) to c) above. Whilst the current admission policy in force requires that a CAB has a guarantor in place (other than in exceptional circumstances), this has not always been the case and there are historic CABs with no legal guarantor to take on legacy liabilities or meet unpaid deficits.

Therefore, there are essentially three scenarios:

a) In the case of a CAB with a historic agreement where no guarantor exists, since the Regulations suggest that any unfunded liabilities should be met via increased contributions from all other employers in the Fund, the Administering Authority wish to protect the interests of the other unconnected employers. Therefore the cessation valuation in such a case will be performed on a "minimum risk" basis (ie. a "gilts" basis which does not allow for any outperformance of other assets such as equities, with an increased allowance for future mortality improvements above those adopted at the last actuarial valuation).

b) However, if the admission body is able to obtain a legally binding guarantee from a Scheme Employer on cessation, and that Scheme Employer is deemed by the Administering Authority to be sufficiently large that the cessation deficit for the admission body is not material to the ongoing funding position of that employer, then at their discretion the Administering Authority may waive some of the above requirements. In these circumstances, if the guarantor is prepared to absorb the departing employer's responsibilities then the cessation valuation may, subject to the agreement of the guarantor, be performed on a basis more akin to an "ongoing" basis.

c) There is a third scenario, in which there is no guarantor, but in the judgement of the Administering Authority, there is a risk of pushing the employer into insolvency by adopting the "gilts" basis, even after allowing for spreading period (see 5 below). In this case, with the prior agreement of the Chairman, Vice Chairman and Chief Finance Officer, the Head of Pensions may allow the cessation valuation to be performed on a set of financial assumptions that are up to half-way between the ongoing and gilts bases. For the avoidance of doubt, in this situation there will be an increased allowance for future mortality improvements beyond that adopted for the previous formal actuarial valuation.

5. Payment of any Deficit

If it is determined that there is a deficit and the employer is required to make a payment to the Fund, the Administering Authority will advise the employer of the amount required.

Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Administering Authority will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Administering Authority will also pursue any bond or indemnity provider or guarantor, for payment where appropriate.

The Fund's policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Administering Authority may consider permitting an exiting admission body to spread the payment over an agreed period, where it considers that this does not pose a material risk to the solvency of the Fund. This period will not exceed the spreading period that applies for the guarantor, or in the absence of a guarantor, that for non-tax raising bodies within the Fund (currently 14 years). If the proposed spreading period is to exceed 7 years (in any circumstances), the Head of Pensions must obtain the agreement of the Chairman, Vice-Chairman and Chief Financial Officer.

6. Residual Risk to Admission Body after Cessation Date

In the normal course of events (ie. where the process above has been adhered to), the outgoing admission body will not normally be exposed to interest rate, investment or other funding risks after the cessation date. The final deficit payment will be calculated by the addition of interest at the level of the base rate between the cessation date and the final payment date(s). However, exceptions to this may need to be made depending on the circumstances of the cessation.

7. On-going Management of Liabilities after Cessation Valuation

It is the policy of the Fund to avoid "orphaned" liabilities and assets, which can occur in the following situations:

a) The former admission body no longer exists; or

b) The former admission body still exists, but they have paid off the cessation valuation in full, so there is no further recourse to them.

In these situations, the issue remains of where the former admission body's liabilities (which don't cease until the last pensioner dies) and investment assets reside within the Pension Fund's unitised structure. The approach for dealing with this is as follows:

a) **Where there is a guarantor** which is also an employer within the Fund, it is the Fund's policy that they will be expected to take the legacy (deferred pensioner and pensioner) liabilities and assets into their own valuation group for the purposes of future actuarial valuations. This can also be a way of spreading the cost of any remaining deficit that the guarantor may be picking up, because the liabilities (and assets) become merged with the guarantor's existing liabilities/assets for valuation and contribution rate purposes.

b) **Where there is no guarantor**, another existing employer within the Fund, such as the original ceding employer (in the case of old CABs) or some other organisation with close links to the former admission body will be sought to similarly absorb the legacy (deferred pensioner and pensioner) liabilities and assets.

Similarly, where there is a guarantor in place and the former Admitted Body is paying off the deficit over time, it is the policy of the Fund to require the guarantor to take the legacy liabilities and assets into their own valuation group.

Approved by Wiltshire Pension Fund Committee on 25 February 2010

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WILTSHIRE COUNCIL **AGENDA ITEM NO. 11**

WILTSHIRE PENSION FUND COMMITTEE
25 February 2010

TREASURY MANAGEMENT STRATEGY

Purpose of the Report

1. The purpose of this report is to seek Members' approval for the first Treasury Management Strategy prepared for the Wiltshire Pension Fund.

Background

2. As the Committee is aware, the Fund has its own bank account, entirely separate from Wiltshire Council's bank accounts. This was implemented in April 2009, at the same time as the Fund gained its own accounting entity with the introduction of the SAP system. Separate bank accounts will become a requirement of the Local Government Pension Scheme Regulations from 1 April 2011.

3. Following concerns about so-called "co-mingling" of local authority and pension fund cash balances, and the associated risk of cross-subsidy, the same Regulations require that the two sets of cash investments are also managed separately.

Considerations for the Committee

4. Wiltshire has never engaged in "co-mingling" in its true sense - the two pots of cash have always been separately identified and accounted for on a monthly basis and an appropriate rate of interest paid to the Pension Fund, commensurate with the risk being taken. This rate of interest has been the Local Authority 7 Day Rate, which is lower than a true "market rate", but this reflects the fact that the investment is on a "no risk" basis. For example, the Fund did not share in Wiltshire Council's losses in the Icelandic banks in 2008.

5. However, in accordance with the Regulations and best practice, the Fund's treasury management arrangements need to be completely separated from those of Wiltshire Council. This will involve the setting up of suitable money market funds and/or call accounts to invest the cash held in Trowbridge ("Trowbridge Cash"). It has also involved the determination of a separate Treasury Management Strategy for the Fund.

6. The Committee must be aware that by adopting this best practice of complete separation, the interest earned on Trowbridge Cash may improve, but as the Fund will be "standing on its own", it will also involve increased risk. This confirms the need for a prudent Treasury Management Strategy that balances risk and return.

7. The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceed the pensions, transfers-out and costs paid out. The surplus cash accumulated (Trowbridge Cash) is sent to one of the Fund's investment managers on a monthly basis, although a float of approximately one month's cash requirement (£1.5 - £2 million) is held for cashflow purposes. This is necessary to avoid the Fund having to borrow short-term within the month.

The key points of the Treasury Management Strategy

8. The key points of the Strategy (see attached) are:

   a) The Fund will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity.

   b) The monies will be invested separately from the Council's and the Fund will receive the actual interest earned.

   c) The Pension Fund will use the same criteria for maximum limits and terms with individual counterparties as approved by Wiltshire Council on an annual basis in its own Treasury Management Strategy, subject to:

      i. A maximum of £5 million with any single counterparty.

      ii. No investment will be made in the money market funds / cash vehicles used by the Custodian to invest any cash it holds on behalf of the Fund's investment managers.

   d) Given the nature of Trowbridge Cash (ie. short-term working capital nature), the investments will only be made either in:

      i. Call Accounts provided by an approved deposit-taker that complies with the Counterparty Policy set out in the Strategy; or

      ii. Money Market Funds managed by an approved investment manager.

   e) The providers of the Call Accounts, and the Money Market Fund vehicles, must have a "high credit rating" as prescribed in the minimum requirements for "high credit rating" set out in Wiltshire Council's annual Treasury Management Strategy.

   f) The Fund will not borrow except by way of temporary loan or overdraft from a bank or otherwise, and then only in exceptional circumstances where it is for the purpose of:

      i. Paying benefits due under the Scheme; or

      ii. Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.

   g) The management of Wiltshire Pension Fund's cash will be carried out by Wiltshire Council's Treasury Management team under a Service Level Agreement.

Environmental Impact of the Proposal

9. There is no known environmental impact of this proposal.

Financial Considerations & Risk Assessment

10. This has been adequately dealt with in the whole paper.

Reasons for Proposals

11. It is best practice, as well as being desirable operationally, to have a separate Treasury Management Strategy for the Wiltshire Pension Fund, so that there is no question of cross-subsidy or co-mingling.

Proposals

12. The Committee is asked to approve the attached Treasury Management Strategy.

MARTIN DONOVAN
Chief Finance Officer

Report Author: David Broome, Head of Pensions.

Unpublished documents relied upon in the production of this report: NONE

Appendix

WILTSHIRE PENSION FUND
TREASURY MANAGEMENT STRATEGY

Operational Context

1. The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceed the pensions, transfers-out and costs paid out.

2. The surplus cash accumulated ("Trowbridge Cash") is allocated to one (or more) of the Fund's investment managers on a monthly basis. It is sent to the Fund's custodian BNY Mellon, who invest the cash held on behalf of each investment manager in Money Market Funds, under the terms of the Custody Agreement. These investments are not within the scope of this Strategy.

3. However, approximately one month's net inflow (£1.5 - £2 million) is held back as a float for cashflow purposes. This is necessary to avoid the Fund having to borrow from Wiltshire Council or elsewhere for short-term cashflow purposes within the month.

Regulatory Context

4. The Fund will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010, and from 1 April 2010 will not pool pension fund cash with Wiltshire Council's own cash balances for investment purposes. Any investments made by the pension fund directly with Wiltshire Council after 1 April 2010 will comply with the requirements of SI 2009 No 393 (ie. will be treated in the same way as any other external investment).

5. The Fund will also have regard to:

    a) The Department for Communities and Local Government's (DCLG's) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and any revisions to that Guidance;

    b) The Audit Commission's report on Icelandic investments;

    c) The 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code");

    d) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 more widely.

Investment Policy

6. The general investment policy of the Fund is the prudent investment of any surplus cash balances, the priorities of which are:

    a) The security of capital; and

    b) The liquidity of investments.

7. The Fund will also aim to achieve the optimum return on investments commensurate with high levels of security and liquidity.

8. All cash investments will be in sterling.

9. The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back into the Pension Fund bank account.

10. Trowbridge Cash will target a range of £1.5 - £7 million, with the highest balances held between the 19th of the month (ie. when all contributions have to be paid over by employers) and 25th of the month (pensions payroll). The float held in-month for cashflow purposes will target £1.5 - £2 million. For the avoidance of doubt, these are indicative amounts, not absolute limits.

11. The Pension Fund will use the same criteria for maximum limits and terms with individual counterparties as approved by Wiltshire Council on an annual basis in its own Treasury Management Strategy, subject to:

    a) A maximum of £5 million with any single counterparty.

    b) No investment will be made in the same money market funds / cash vehicles used by the Custodian to invest any cash it holds on behalf of the Fund's investment managers.

    c) For the avoidance of doubt, the Pension Fund's limits are in addition to Wiltshire Council's own limit in any single counterparty.

12. Given the nature of Trowbridge Cash (ie. short-term working capital nature), the investments will only be made either in:

    a) Call Accounts provided by an approved deposit-taker that complies with the Counterparty Policy set out below; or

    b) Money Market Funds managed by an approved investment manager.

13. For the avoidance of doubt, direct investments with counterparties are not permitted (eg. direct deals with banks or other local authorities for fixed time periods).

14. The providers of the Call Accounts, and the Money Market Fund vehicles, must have a "high credit rating" as prescribed in the minimum requirements for "high credit rating" set out in Wiltshire Council's annual Treasury Management Strategy.

15. An extract of the appropriate parts from Wiltshire Council's latest Treasury Management Strategy (2010-11) is given in the Annex for information.

<u>Borrowing Policy</u>

16. The Fund will not borrow except by way of temporary loan or overdraft from a bank or otherwise, and then only in exceptional circumstances where it is for the purpose of (overleaf):

a) Paying benefits due under the Scheme; or

b) Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.

Management Arrangements

17. The management of Wiltshire Pension Fund's cash will be carried out by Wiltshire Council's Treasury Management team under a Service Level Agreement. All treasury management activity related to the Pension Fund will be reported to the Head of Pensions on a monthly basis.

18. The Treasury Management Team will inform the Head of Pensions of any change in the criteria for the counterparty list.

Approved by Wiltshire Pension Fund Committee on 25 February 2010

EXTRACT FROM WILTSHIRE COUNCIL'S TREASURY MANAGEMENT STRATEGY FOR 2010-11

11. The Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach, with credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors), forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

    a) credit watches and credit outlooks from credit rating agencies;

    b) CDS spreads to give early warning of likely changes in credit ratings; and

    c) sovereign ratings to select counterparties from only the most creditworthy countries

12. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

13. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council, where it is considered appropriate and in line with its whole investment strategy, will therefore use counterparties within the following durational bands:

    a) Purple – 2 years;

    b) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):

    c) Orange – 1 year;

    d) Red – 6 months;

    e) Green – 3 months; and

    f) No Colour – not to be used.

14. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue prevalence to just one agency's ratings.

15. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service. Following receipt of this information from Sector:

a) any financial institutions meeting the criteria are updated on the list of authorised lenders and investments may then be placed with “qualifying” institutions immediately;

b) if a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately;

c) if funds are held by an institution that subsequently falls outside the current credit rating criteria and CDS overlay, all funds will be withdrawn from that institution at the earliest opportunity. This will normally be on the maturity of that deposit. If the fall is significant and there are more than three months before the maturity date and in any other extreme circumstances, negotiations for premature repayment will be pursued;

d) whenever there is a change in the list of authorised lenders, a revised list will be provided to those authorised to deal in investments on behalf of the Council, including its authorised brokers.

e) in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list.

16. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

The Minimum requirements for “high credit rating”

17. In accordance with the DCLG Guidance on Local Government Investments in respect of selection of counterparties with whom investments are placed, Wiltshire Council will comply with the minimum requirements below.

18. Credit ratings will be those issued by Fitch Ratings Ltd in respect of individual financial institutions (as shown below, where F1+ is the highest short term rating and AAA the highest long term rating). An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is the highest.

19. The minimum requirements for high credit rating, by type of institution, are as follows:

- **Banks incorporated inside the United Kingdom with a short term credit rating of at least F1 or Government backed and their subsidiaries;**

- **Banks incorporated outside the United Kingdom with a short term credit rating of at least F1+ and a long term rating of A+;**

- **United Kingdom building societies with a short term credit rating of at least F1 or Government backed;**

- **All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003)** (ratings are not issued for these bodies);

- **Multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA;**

- **All banks & building societies must have an individual rating of at least C;**

- **In addition, all banks and building societies to which the Authority may lend funds must have a support rating of no more than 3 (1 being the highest support rating);**

- **Money market funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies, Standard and Poor's, Moody's Investor Services Ltd or Fitch Ratings Ltd.; and**

- **Deposits must only be placed in money market funds subject to individual signed management agreements.**

20. In addition to the above criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):

    a) Up to £15 million:

    - **UK incorporated banks with a long term credit rating of at least AA;**
    - **Overseas banks that have a long term credit rating of at least AA;**
    - **Multilateral development banks;**
    - **Local authorities and other public bodies; and**
    - **Money market funds.**

    b) Up to £8 million:

    - **Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
    - **Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
    - **UK Building societies with long term credit rating of at least A; and**
    - **Government backed UK and overseas banks and UK building societies and their subsidiaries.**

21. The following investment duration matrix shows the maximum duration for which an investment can be placed, depending on the combination of the individual institution's long term, short term, individual and support ratings (e.g. up to five years where an institution is classified as F1+ (short term rating), AAA (long term rating), A (individual rating) and 1 (support rating) or up to one year where an institution is classified as F1, A+, A, 2)

Investment Duration Matrix

Ratings					
Short Term	**Long Term**	**Individual**	**Support**		
			1	**2**	**3**
F1+	AAA	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA+	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA-	A	1-2yrs	1-2yrs	1 yr
		A/B	1-2yrs	1-2yrs	3 mths
		B	1-2yrs	1-2yrs	3 mths
		B/C	1-2yrs	1-2yrs	3 mths
		C	1 yr	1 yr	3 mths
F1	A+	A	1 yr	1 yr	3 mths
		A/B	1 yr	1 yr	3 mths
		B	1 yr	1 yr	3 mths
		B/C	3 mths	3 mths	n/a
		C	3 mths	3 mths	n/a
	A	A	1 yr	1 yr	3 mths
		A/B	1 yr	1 yr	3 mths
		B	1 yr	1 yr	3 mths
		B/C	3 mths	3 mths	n/a
		C	3 mths	3 mths	n/a

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

Agenda Item 17

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Agenda Item 19

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Agenda Item 20

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Agenda Item 21

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