Wiltshire Council
Where everybody matters

AGENDA

Meeting:	Wiltshire Pension Fund Committee
Place:	Council Chamber - Council Offices, Browfort, Devizes
Date:	Thursday 1 December 2011
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Liam Paul, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718376 or email liam.paul@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**
	1 December 2011	09:30	Committee Room 2

Membership:

Wiltshire County Council Members:
Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice Chairman)
Cllr Jeff Osborn
Cllr Mark Packard
Cllr Sheila Parker

Substitute Members
Cllr John Brady
Cllr Malcolm Hewson
Cllr David Jenkins
Cllr Bill Moss
Cllr Helen Osborn
Cllr Fleur de Rhe-Philipe

Swindon Borough Council Members
Cllr Des Moffatt
Cllr Peter Stoddart

Substitute Members
Cllr Mark Edwards

Employer Body Representatives
Mrs Lynda Croft
Mr Tim Jackson

Observers
Mr Tony Gravier
Mr Mike Pankiewicz

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** *(Pages 1 - 10)*

   To confirm the minutes of the meeting held on 29 September 2011 *(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 Thursday 24 November.**

8. **CIPFA Pension Fund Health Check** *(Pages 11 - 32)*

   A report presenting the findings of the CIPFA Health Check will be presented by its author Keith Bray of CIPFA Business Services for the committee to note.

9. **Pension Fund Risk Register** *(Pages 33 - 38)*

   An update from the Chief Finance Officer on the Wiltshire Pension Fund Risk Register for Members' consideration (attached).

10. **Draft DCLG Consultations Response** *(Pages 39 - 72)*

    A report by the Chief Finance Officer outlining the Wiltshire Pension Fund's proposed response to the CLG consultation on the changes to the LGPS scheme to achieve the Government's required short term savings of £920m by 2014-05, for Committee's approval.

11. **Retendering of the Fund's Environment Social and Governance Services** *(Pages 73 - 74)*

A report outlining the Fund's proposed process for the retendering of its ESG services for Committee's approval.

12. **Date of Next Meeting**

Members are asked to note that the next regular meeting of this Committee will be held on Wednesday 22 February 2011. There will be two special meetings in the interim, Friday 6 January 2012 for the review of Investment Advisers and Friday, 27 January for the presentations and appointment of an Infrastructure Fund of Fund manager and a Fundamental Indices manager.

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 14 – 17 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. **CIPFA Pension Administration Benchmarking Club Report** *(Pages 75 - 120)*

A confidential report reviewing the Fund's performance compared to the other members of the CIPFA Pension Administration Benchmarking Club for committee to note.

16. **Wiltshire Pension Fund Structure Review** *(Pages 121 - 130)*

A confidential report outlining the proposed changes to the structure of the Pension Fund team (attached) will be presented for members' consideration and approval.

17. **Investment Structure Update**

A verbal report by the Head of Pensions updating the Committee on the progress of the procurement of the new mandates agreed at the July meeting.

18. **Potential Class Action** *(To Follow)*

A confidential report is circulated to the Committee to consider whether to put the Fund forward to be a lead plaintiff in a forthcoming Class Action in the US.

19. **Investments Quarterly Progress Report**

A confidential report is circulated updating the Committee on the performance of the Fund's investments for the quarter (circulated separately).

20. **CB Real Estates (formerly ING) - Review of 2010-11 & Plans for the Future** *(To Follow)*

A confidential Annual Report from CB Real Estate is enclosed. Members are asked to consider this along with the verbal report at the meeting.

21. **Record Currency Management - Review of 2010-11 & Plans for the Future**

A confidential Annual Report from Record Currency Management is enclosed. Members are asked to consider this along with the verbal report at the meeting.

Wiltshire Council
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WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 29 SEPTEMBER 2011 AT COUNCIL CHAMBER - COUNCIL OFFICES, BRADLEY ROAD, TROWBRIDGE, BA14 0RD.

Present:

Mrs Lynda Croft, Mr Jim Edney, Mr Tony Gravier, Cllr Charles Howard (Vice Chairman), Mr Tim Jackson, Cllr David Jenkins (Substitute), Cllr Mark Packard, Mr Mike Pankiewicz, Cllr Sheila Parker and Mr Paul Potter

Cllr Howard in the Chair.

56. **Membership**

There were no changes to the membership.

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

None.

58. **Apologies for Absence**

Apologies for absence were received from Cllr Deane, Cllr Brady and Cllr de Rhe-Philipe, as well as Michael Hudson, Interim Chief Finance Officer.

Cllr David Jenkins substituted for Cllr Osborn.

59. **Minutes**

The minutes of the meeting held on 22 July 2011 were presented.

Resolved:

To approve as a correct record and sign the minutes.

60. **Chairman's Announcements**

The Chairman updated the meeting on the following items:

CIPFA Governance Health Check

At the previous meeting the committee resolved for officers to review the benefits and if appropriate commission an independent health check for the fund. This has now been commissioned, and Mr Keith Bray will present his report on the Governance Arrangements of the fund on 1 December 2011.

Members Training

Members were reminded that the next training event would focus on procurement and accounts & audit regulations. Originally scheduled for October 2011, this would likely now take place in November.

Following the announcements on the Government's proposed changes to the LGPS, which are expected over the next few weeks, the Fund's Actuary will be invited to the training session to give an update on the current actuarial issues facing the fund that committee members need to be aware of.

Democratic Services will circulate a list of suggested dates and the Pensions will choose a date and location most amenable to all. The finalised date will then be communicated to members by email.

LGC Investment Conference feedback

The Chairman highlighted positive feedback from Cllr Des Moffatt, who had attended the 2011 LGC Investment Summit at Celtic Manor at the start of September. Cllr Moffatt felt that the summit was very informative, particularly in updating on the expectations for the UK economy free of media spin. He stated that from an investment point of view the UK economy can expect to bump along for a few years, with the main risk being uncontrolled inflation. An interesting new initiative was the financial services industry working on bonds to provide local government with capital funding.

61. **Declarations of Interest**

None

62. **Public Participation and Councillors' Questions**

None

63. **Pension Fund Risk Register**

The Head of the Pension Fund, David Anthony, summarised his report, and explained that there were no significant changes in the risk register since the last meeting, however there were four areas where the risk remained at a medium level, instead of the target of low risk. These were as follows:

a) **PEN008: Failure to comply with LGPS and other regulations** – A number of actions are on-going to mitigate this risk. Workflow will monitor all tasks being undertaken by the Benefits Team, ensuring they follow the same procedures when processing work. Currently this has only been rolled out to the Senior Pension Officers but all Pension Officers should be using this from October onwards. The intention is this system will allow the monitoring of Employers performance in line with the Administration Strategy.

   There is also a need to review the current Pension Fund Team structure to ensure there is sufficient resource and knowledge available to not only monitor the team's compliance with the regulations, but to ensure service standards are maintained and that the forthcoming changes surrounding the scheme, tax legislation, data records and auto-enrolment can be implemented. The intention is the restructure will not significantly increase overall resources but allow for more technical posts to support the team to deal with the more complex issues facing the Fund. All proposals need to be evaluated with HR and any additional costs will be approved by the Chief Finance Officer in liaison with the Chairman and Vice-Chairman prior to implementation.

b) **PEN010: Failure to keep pension records up to date and accurate** – There has been detailed reconciliations undertaken between the Wiltshire Council payroll and the pension records. The majority of the starters' backlog has been resolved with the focus on the leavers records. Once resolved, work will focus on the other large employers to reconcile data and address any issues.

   Once the Workflow project is fully implemented, an imaging project is planned in November to enable all documents to be scanned to ensure records are kept in a safe and consistent place.

c) **PEN011: Lack of expertise of Pension Fund Officers and Chief Finance Officer** – as detailed above the Pension Team structure review will address any issues of knowledge gaps at the right levels, with particular reference to the administration of benefits. All officers have the opportunity to identify any knowledge and skills gaps through the annual appraisal process. The Fund has recently procured the CIPFA Knowledge and Skills Framework toolkit from Hymans Robertson which includes an evaluation process and a knowledge library to ensure officers have the relevant knowledge areas for their post. This toolkit will be utilised over the coming months as part of officers learning and development programmes.

d) **PEN013: Failure to communicate properly with Stakeholders** – the Fund has refreshed its Communications Policy which is elsewhere on this agenda. This includes taking a more pro-active approach to ensure scheme members are aware of their benefits. The Fund has attended a 'Pension Party' at the request of Swindon UNISON to promote the scheme and will be running its first of a series of Pension Clinics on 29 September 2011 for Swindon Borough Council employees. Work is on-going in ensuring employers are aware of their responsibility in respect of NEST and the changes to tax relief.

Resolved:

To note the report

64. **Projected Outturn 2011-12**

The Fund Investment and Accounting Manager, Catherine Dix, outlined the Fund's projected outturn statement for 2011-12. In doing so she drew particular attention to the performance fee paid to Baillie Gifford which had contributed to a £550,000 overspend against Investment Management Fees for segregated funds. However, the Fund has benefited from greater than expected asset returns far in excess of this for the Baillie Gifford mandate.

65. **Communications Policy**

The Head of the Pension Fund explained that the policy under consideration by the committee was a refresh of the previous communications policy which was introduced in approved in 2009.

Questions were invited, and members of the committee were content with both the content of the policy and information flow between the Fund and its employers / members.

It was made clear that there were a number of ways the Pensions Fund team communicates with employers who are part of the Fund. These are as follows:

- A dedicated member of staff to act as a Employer Relationship Manager
- Quarterly liaison meetings
- Employers' newsletters
- An annual report
- Training opportunities

A new initiative is the development of drop-in 'clinics' as a method of distributing information to members of the scheme through their employers / workplaces. There will be a series of roadshows once the outcome of the Hutton report is known.

Resolved:

To approve the revised Wiltshire Pension Fund Communications Policy

66. **<u>Stewardship Code</u>**

The Fund Investment and Accounting Manager, Catherine Dix introduced the attached statement of compliance with the FRC's Stewardship Code. This was in accordance with good governance guidelines and set out extent to which the Wiltshire Pension Fund and its fund managers have complied with the code.

It was reported that two-thirds of the Fund's global equities managers were fully compliant with the code.

Questions were asked regarding the way votes were cast at the AGMs of companies whose stock was owned by the Fund. It was confirmed that at each meeting, votes were cast in accordance with the Fund's third party voting administrator, Pensions & Investment Research Consultants Limited (PIRC's) Governance Code.

If there was a vote on a specific issue on which the committee had expressed a strong direction and / or held a longstanding interest, it was possible to resolve to instruct PIRC to vote in a specific manner.

Generally members of the committee welcomed moves to strengthen the accountability of funds invested on behalf of local authority funds by the Financial Reporting Council (FRC) and praised the Fund's engagement and conflict resolution structures.

Members were reminded that voting reports for the Fund from PIRC were available on the Fund's website, through the members' login portal:

http://www.wiltshirepensionfund.org.uk/login

<u>Resolved:</u>

To approve the Stewardship Code Compliance Statement 2011.

67. **<u>External Audit Report</u>**

A member of the committee highlighted that concern was raised at the Audit Committee a day previously that some of the hedging activities undertaken by the Fund's mandates were illegal.

The Committee was assured that this was *<u>not</u>* the case. The Fund's advisor, Mr Paul Potter commented that the Fund was invested in some long/short equity funds but he was confident that they acted properly.

Chris Wilson, of KPMG summarised the key points of the report and thanked the Pension Fund staff for their support.

A discussion ensued regarding the auditing and governance difficulties of monitoring the Fund as it now had a fundamentally more global approach to investing.

In response Gemma Broom, of KPMG explained that their 'Fund Radar' system allowed the company to gain comfort on the accuracy of investment pricing, based on stock prices, underlying assets and computer modelling, or a combination of the above methods. Investment allocations are audited to ensure they are within a certain tolerance on the above measures.

The role of the Fund's custodians, BNY Mellon was pointed out: as they check that the fund managers' valuations of investments are sound, through due diligence and other measures.

Members of the committee were also reminded that there existed and legislative framework for the investment of Pension Fund assets, and that under the IFRS, funds were required to list all credit risks.

68. **Annual Report**

At the Chairman's discretion this item was held before the preceding item on the agenda to facilitate smooth running of the meeting.

Members were asked to note the report was still in an unpublished format. A number of typographical corrections were pointed out and corrected.

Resolved:

To approve the draft Wiltshire Pension Fund Annual Report & Financial Statements 2010-11 for publication, subject to the completion of the audit.

69. **Date of Next Meeting**

The committee noted that the next meeting of the Committee will be held on 1 December 2011.

A members' training session is planned for 24 November 2011.

70. **Urgent Items**

None

71. **Exclusion of the Public**

Resolved:

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 Minute numbers 72-77 because it is likely that if members of the public were present there would be disclosure to them of exempt information as

defined in paragraph 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.

72. **KPMG Financial Controls Peer Group Comparison**

Gemma Broom of KPMG introduced the KPMG Financial controls peer group comparison document which provided a high level overview of how the Wiltshire Pension Fund (WPF) compares to its peer group.

The areas covered by the report were:

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

Ms Broom explained that governance arrangements scored slightly better than the average of all other public service schemes, and the Fund also scored extremely highly against all comparators with regards to scheme accounting. For all the above mentioned areas the Wiltshire Pension Fund achieved or exceeded the public sector peer group scores in all areas.

Members questioned why the Fund was lower compared to the all comparators group when it came to Audit. It was explained that many private schemes have their own Pension Fund Audit committee.

Regarding the benchmarking on members' data, it was highlighted that reconciliations were very difficult based on the large number of employers within the Fund as many corporate funds only have one.

KMPG commended the investment, reconciliations work and record keeping of the Wiltshire Fund. Ms Broom also informed those present that KPMG used independent experts to obtain variations of derivatives due to the size and complexity of the portfolios involved.

Members welcomed the report and the forthcoming CIPFA Benchmarking paper which would provide further comparisons with a greater number of other schemes in relation to the administration of the Fund.

Resolved:

To note the report and verbal update provided.

73. **Update on the Administration of the Uniformed Pension Schemes Administered by Wiltshire Council**

The Head of the Pension Fund gave a confidential update on two pension schemes, which the Wiltshire Pension Fund team currently administer on behalf of the Police and Fire Authorities

Resolved:

To note the verbal update provided.

74. **South West Framework**

The Head of the Pension Fund spoke to his confidential report regarding the development of the Southwest Actuarial, Benefits and Investment framework.

Resolved:

To approve the proposed approach for the tendering of Actuarial, Benefits and Investment services, as outlined in the report.

75. **Investment Structure Update**

The Head of the Pension Fund gave a confidential update to the committee on officers' work to move forward the procurement of the new investment mandates agreed at the last meeting.

Resolved:

To note the verbal update provided.

76. **Investments Quarterly Progress Report**

The Fund Investment and Accounting manager summarised her confidential report, which detailed the investment activity and performance of the entire Fund for the period up to 30 June 2011 together with a look at the performance of individual mandates for the same period.

The committee was also updated on the Fund's value and funding position following the volatility in the equity markets in August.

Resolved:

1) **To note the contents of the report.**

2) **To formally review the performance of the Edinburgh Partners mandate at the February 2012 meeting.**

77. **M&G - Review of 2010-11 & Plans for the Future**

William Nicoll and Simon Parker from M & G Investments reviewed the previous year's developments regarding the UK Companies Financing Fund and outlined their plans for the future.

Resolved:

To note the information contained in the reports and the verbal update on investment policy provided by M & G Investments.

(Duration of meeting: 10.30 am - 1.45 pm)

The Officer who has produced these minutes is Liam Paul, of Democratic Services, direct line 01225 718376, e-mail liam.paul@wiltshire.gov.uk

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

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The Chartered Institute of Public Finance & Accountancy

CIPFA Pensions Network

Health Check
For
WILTSHIRE Pension Fund

November 2011

Preface

This Governance Health Check for the Wiltshire Pension Fund is carried out by a senior adviser to the CIPFA Pensions Network (CPN). The CPN represents 72 subscribing local government pension funds and provides independent support for its members on all areas of pensions investments, administration and governance. It also acts as a strong link to the work of the CIPFA Pensions Panel and assists in the implementation of the guidance and legislation relating to public sector pensions.

The work was carried out between September and November 2011 and involved face to face meetings with the Fund's Officers, desk top research and telephone conversations aimed at establishing a sound understanding of the governance arrangements of the Wiltshire Pension Fund. The CPN assessment of these arrangements against best practice and guiding principles is set out in this report.

Introduction

1.1 Purpose of the Health Check

This Governance Health Check will:

- Assess the Fund's compliance with current regulation and best practice guidance
- Ensure current procedures and reporting support an effective decision-making process

In particular it will evaluate:

i. the Fund's compliance with the Department for Communities and Local Government (CLG) governance requirements for Local Government Pension Scheme (LGPS) Funds
ii. the Fund's compliance with the Myners Principles
iii. how the Fund is approaching the CIPFA Knowledge and Skills Framework (KSF)

Reference will be made to the recommendations in the Hutton Report (2011) where these relate to the governance of local government pension schemes. Finally, the report will make recommendations on how to enhance the Fund's governance arrangements.

Background

2. 1. General

Wiltshire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations by Wiltshire Council which became a unitary authority on 1 April 2009. As at 31 March 2011 the Fund had 19,456 contributors and 29,226 pensioners, of whom 17,883 were deferred pensioners. There were 11,343 pensions in payment. The fund had assets of £1,276.3m (now £1,183.3m as at 30 September 2011)

At the end of March 2011 the Fund had 64 participating employers – 41 scheduled bodies and 23 admitted bodies contribute to the fund as listed in ***Appendix 1***. Since then a number of outsourcings and academies have been set up and the number of employers has risen to 91, 66 scheduled bodies and 25 admitted bodies as at end of September.

During 2010/11 £30.492m (45.7%) of the total amount received from participating employers (£66.678m) came from Wiltshire Council. The Wiltshire Council was created from the former Wiltshire County Council and four former District Councils on 1st April 2009. Other scheduled body employers contributed £29.455m (44.2%) and admitted bodies contributed £6.731m (10.1%) The second largest employer contribution during 2010/11 - £19.287 (28.9%) came from Swindon Borough Council.

2. 2. Governance – Current Structure

2.2.1. Wiltshire Pension Fund Committee

Wiltshire Council has delegated its responsibilities for the Wiltshire Pension Fund to the Wiltshire Pension Fund Committee. The Council's constitution says that the Committee will "exercise the functions of the Council as Administering Authority under the Local Government Superannuation Act and Regulations and deal with all matters relating thereto" for the local government pension scheme in Wiltshire. The Wiltshire Pension Fund Committee has the power to "…make decisions on matters of significant policy…" There are no Sub-Committees or Panels reporting to the Committee.

In effect this means that the Committee is responsible for:-

- Administration of the LGPS Scheme:
    - Maintenance of the database of members (and employers)
    - Administration of payments into the Fund (e.g. contributions & transfer values)
    - Administration of payments out of the Fund (e.g. benefits & transfer values)
- Communication with members and employers (including maintenance of website)
- Admission and cessation of employers as admitted bodies of the Fund
- The organisation of the triennial (and interim) actuarial valuations of the Fund and setting of employer contribution rates
- Preparation and maintenance of all the required policy documents (e.g. Funding Strategy Statement, Statement of Investment Principles, Governance Statements, etc)
- The management and investment of funds, including the appointment and review of investment managers and associated service providers
- Accounting for the Fund and the preparation of the Annual Report and Financial Statements

The Pension Fund Committee is comprised of nine members as follows:

- Five Councillors from Wiltshire Council
- Two Councillors from Swindon Borough Council
- One representative of admitted bodies
- One representative of the Education Scheduled bodies.

The Committee meets five times a year in Wiltshire, with additional meetings as and when required. These meetings are open to the public, although some items are considered in private. Each member of the Committee has full voting rights.

In addition each committee is attended by two employee representatives (one from Wiltshire Council's UNISON branch and one from Swindon Borough Council's UNISON branch both of whom have observer (non-voting) status

2.2.2. The Role of the Council's officers

Under the Council's constitution, the Chief Finance Officer has "…express authority to take all necessary actions to implement … Committee decisions…" and is "… empowered to take operational decisions, within agreed policies…" Another part of the constitution makes clear that "the …Chief Finance Officer...has legal responsibilities for the financial administration and stewardship of the Council. These statutory responsibilities cannot be overridden. The statutory duties come from …The Local Government Pension Scheme Regulations…"

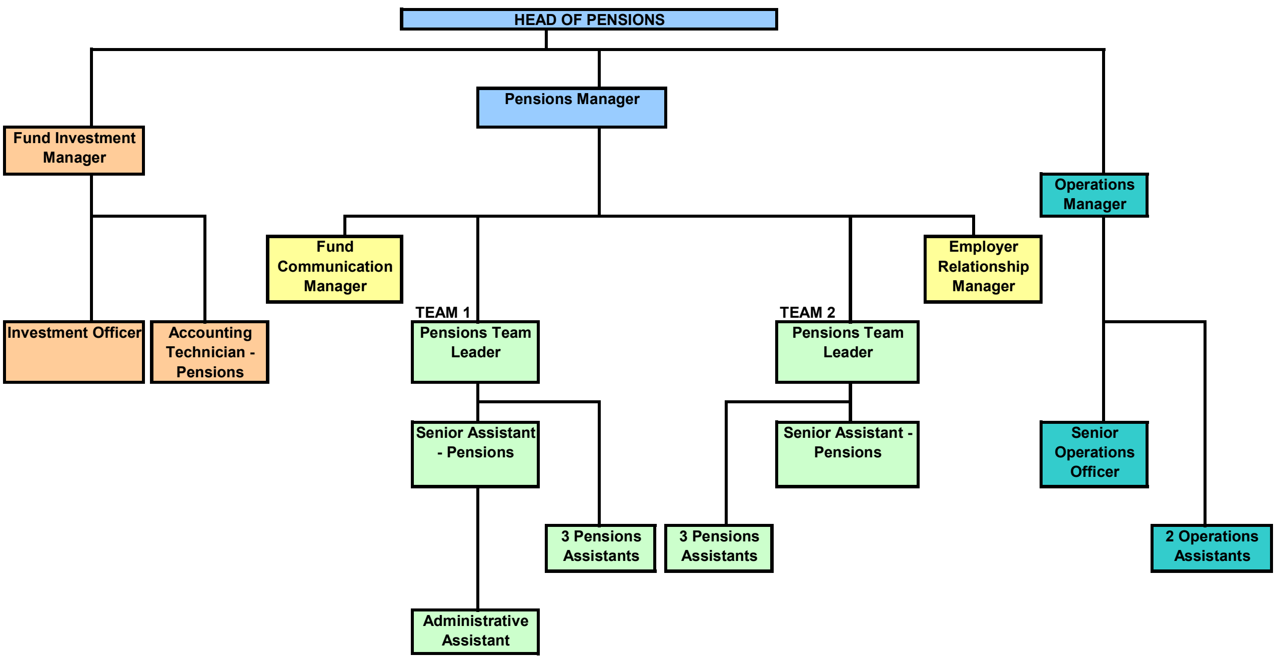
Therefore, the Chief Finance Officer essentially has two roles in relation to the management of the Fund:

- The first is to assist the members of the Committee in meeting their responsibilities and coming to decisions. This is achieved by making appropriate advice available to members, either personally or by the use of consultants.

- The second aspect is the running of the Fund.

In reality, much of this responsibility is delegated to the Head of Pensions, who manages the Fund on a day-to-day basis, with the help of a team of 21 staff, as shown below:

WILTSHIRE PENSIONS SECTION (July 2009)



The structure broadly breaks down into the following main areas of responsibility:

- The Head of Pensions (1) – who has overall responsibility and leads on governance matters;

- The Benefits Teams (12) – who are responsible for calculating and paying pensions;
- The Operations Team (4) – who is responsible for ensuring the computer software that the Benefits Teams use is fit for purpose and the data in it is clean;
- The Investments & Accounting Team (3) – who are responsible for all aspects of the Fund's investments and accounting; and
- The Communications & Employer Relationship Officers (2) – who are responsible for ensuring good communications are kept up with employers and scheme members through various means, including the Fund's website – www.wiltshirepensionfund.org.uk.

2.2.3. Expert advice
The Committee has for several years commissioned advice from Hyman Robertson as its investment consultant and actuary, although it is currently tendering as part of the LGPS South West region framework agreement for actuarial, benefits and investment consultancy.

The Committee also has an independent pension fund adviser (a former County Treasurer, Mr Jim Edney, who operates under the aegis of the CIPFA Business Services). The independent adviser advises on all aspects of the management of the fund.

The Committee's Investment Adviser and Independent Adviser attend all Committee meetings.

2. 3. Current Investment Management Arrangements

The Fund has nine external investment managers managing the investments and assets of the Fund (with mandates of individual managers ranging from 1.0% to 24.0% of the Fund).

External investment managers attend Committee meetings on a rotation basis or as and when required if there are any particular matters of concern to be explored and/or discussed. All managers attend Committee meetings at least once during each year

Compliance

3. 1. Levels of compliance with the nine governance requirements for Local Government Pension Scheme (LGPS) funds as required by regulations laid down by the department for Communities and Local Government (CLG)

Under statutory guidance issued by CLG to all LGPS Administering Authorities in November 2008, LGPS funds are required to measure their governance arrangements against standards as defined in detail by the nine principles set out in that guidance and publish a governance compliance statement. Where compliance does not meet the published standard, there is a statutory requirement for administering authorities to give the reasons for not complying in their governance compliance statements – i.e. a 'comply or explain' approach. The Wiltshire Pension Fund Compliance Statement assesses the position of the Wiltshire Fund to be as follows:-

	CLG Principles of Best Practice for the governance of LGPS Funds		Wiltshire view of compliance status
1	Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Fully Compliant
2	Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: employing authorities (including non-scheme employers, e.g., admitted bodies); scheme members (including deferred and pensioner scheme members); independent professional observers; and expert advisors (on an ad-hoc basis). That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Fully Compliant
3	Selection and role of lay members	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Fully Compliant
4	Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully Compliant
5	Training/facility time/expenses	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of	Fully Compliant

		members involved in the decision-making process	
6	Meetings /frequency/ quorum	That an administering authority's main committee or committees meet at least quarterly	Fully Compliant
7	Access	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully Compliant
8	Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully Compliant
9	Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully Compliant

3. 2. Levels of compliance with the Myners Principles

The LGPS Regulations laid down by the Department for Communities and Local Government require administering authorities to assess their level of compliance with the six Myners Principles and to report on their level of compliance and explain any non – compliance, i.e. again a 'comply or explain' approach. The approach adopted involves commenting on some of the specific aspects of the Myners principles which are set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (2009). In the Statement of Investment Principles (SIP) the Wiltshire Fund assesses it's compliance with the Myners Principles as follows:-

	Principle	Requirements of the Myners Principles	Wiltshire view of Compliance Status
1	Effective Decision Making	Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Fully compliant
2	Clear Objectives	An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on the local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisors and investment managers.	Fully compliant

3	Risk and Liabilities	In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Fully compliant
4	Performance Assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	Fully compliant
5	Responsible Ownership	Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities	Fully compliant
6	Transparency and Reporting	Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate.	Fully compliant

3.3. Levels of compliance with the CIPFA Knowledge and Skills Framework

The Knowledge and Skills Framework has only been published relatively recently and therefore the Wiltshire Fund, like many other funds, has been developing its approach to this new Framework.

In its Annual Report the Fund states that it provides and arranges training for staff and members of the pension committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills as follows.

> The Wiltshire Pension Fund's training plan sets out how they intend the necessary pensions finance knowledge and skills to be acquired, maintained and developed. The three year plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Framework.

The Chief Finance Officer is responsible for ensuring that these training plans and strategies are implemented.

The CIPFA *Knowledge and Skills Framework* identifies the elements pension fund committee members should have in order to collectively fulfil the roles envisaged they have in effective decision making.

This Members Training Plan will be reviewed and updated on a rolling basis, to ensure it's aligned to the Fund's medium term priorities, in line with the recommended practice. Details of assessments and training undertaken are set out in ***Appendix 2***

Overall Assessment of the Governance of the Wiltshire Pension Fund

4.1. Compliance with CLG statutory guidance

The Fund's statutory governance compliance statement self-assesses the Fund as being fully compliant in all respects.

4.1.1. Structure – Compliant
There is no secondary committee or panel. However the current approach engages well with members of the Committee, and avoids some of the perceived difficulties of the potential "two-tier
It is important that the decision to not have either of these in place is reviewed regularly in the light of changing demands and confirmed or changed as deemed appropriate by the Committee after taking advice.

4.1.2. Representation and Selection and Role of Lay Members – Compliant

The current structure provides representation for the main local authorities, admitted bodies and education scheduled bodies. This latter representation has become increasingly important following the awarding of academy status to some schools.

Two employee representatives are nominated by the Trade Union Unison.

With these current arrangements it is therefore possible that more contact is made with non-scheme members who are Unison members than with non-Unison members who are LGPS scheme members. There may not be sufficient levels of communication with these stakeholders including retired members.

Consideration could also be given to allowing representation for retired members but there is no reason why the representatives of active scheme members couldn't continue to act on behalf of deferred and pensioner scheme members.

The Fund's Independent Adviser and Investment adviser attend all Committee meetings and the Fund's actuary attends as and when necessary

4.1.3. Voting – Compliant

Only the elected local authority Committee Members, representatives of admitted bodies and education scheduled bodies have voting rights. Employee observers do not have voting rights - this is in line with many local government pension fund committees that give employee representatives observer status only i.e. participating but not voting.

Some funds are however granting voting rights to employee representatives and this could be considered. The reason put forward by Wiltshire that there is very little that scheme members (or their representatives) can influence on the committee that has any direct impact upon them is somewhat outmoded. However the point made that, giving voting rights to the observers would mean increasing the size of the Committee, because the Administering Authority must legally be able to maintain a majority is valid.

4.1.4. Training/facility time/expenses/ – Compliant

The Committee's approach to training appears very positive and it is taking the CIPFA Knowledge and Skills Framework seriously. Progress is being made and is in accordance with the framework. Self-assessments of training needs have been periodically taken to drive the provision of training and to ensure the relevance of training provided. Face to face discussions about training needs are conducted by the Head of Pensions with the Chairman and Vice Chairman of the Committee.

This is a good practice which should be retained. It is of course important that all assessments are followed up and acted upon.

These assessments should be completed annually for all existing members and upon appointment for all new members including observers and officers

4.1.5. Meetings/Frequency/Access – Compliant

The Committee meets five times a year and all members of the committee, including non-voting and substitute members, receive all the papers for every meeting including the confidential ones.

4.1.6. Scope – Compliant

All matters in relation to the Fund, including benefits, governance, investments, communications, employers, issues etc, are covered by the governance arrangement

4.1.7. Publicity – Compliant

The stakeholders who do not have a direct line of influence and/or communication to the committee need to have a number of points of information, advice and two-way communications, The Fund has a comprehensive and well documented Communications Strategy for communication with its various stakeholders.

- **In summary the Wiltshire Pension Fund is considered to be in full compliance with the CLG statutory guidance on governance of LGPS funds**

4.2 Compliance with the Myners Principles

4.2.1 The CPN evaluates the level of the Fund's compliance with the 6 revised Myners Principles as follows:-

PRINCIPLE 1 Effective decision making **Compliant**

The structure of, and representation on the Committee and the training offered to its members is such as to provide the basis for effective decision making

PRINCIPLE 2 Clear objectives **Compliant**

The Fund's Funding Strategy Statement and Statement of Investment Principles when taken together with its Business Plan and approach to risk assessment demonstrate that the Committee has clear objectives. However when discussing the actuarial valuation report with the Fund's actuary and bearing in mind the potential for the differing profiles of the Fund's different employers, consideration could be given to the merit of continuing with a single investment strategy for all employers.

PRINCIPLE 3 Risk and liabilities **Compliant**

The risk register maintained by the Fund is comprehensive and is reviewed regularly

PRINCIPLE 4 Performance Assessment **Partially Compliant**

By it's subscription to the WM performance measurement service and the receipt of an investment performance analysis from its custodian, the Fund is compliant with this principle so far as the measuring of performance of individual investment managers and overall investment strategies is concerned. The results of the WM measurement of the fund could however be reported to the Committee annually and in person by a WM representative.
The administrative performance of the Fund is monitored following the adoption of an Administration Strategy in November 2009.
However as acknowledged in the Fund's Statement of Investment Principles (SIP), its investment advisers are assessed on a more qualitative basis and more formal arrangements for assessment could be developed to measure cost, quality and consistency of advice received. As noted in paragraph 2.2.3. above the Fund is currently tendering as part of the LGPS South West region framework agreement for actuarial, benefits and investment consultancy.
The SIP also states that "the Committee believes that its own effectiveness can ultimately be measured by the level of success achieved in minimising and stabilising the level of contributions paid into the Fund by employing bodies to ensure its solvency." Whilst there is undoubted validity in this position it could be re-enforced by a more formal and structured annual assessment of the Committee's effectiveness. As noted in the SIP this will be aided by the Fund's continued compliance with the CLG principles (paragraph 4.1. above) and the CIPFA Knowledge and Skills Framework (paragraph 4.3. below).

PRINCIPLE 5 Responsible Ownership **Compliant**

The Fund has a contract with PIRC to advise pro-actively on their responsibilities as responsible shareholders and has been a member of the Local Authority Pension Fund Forum for many years.

PRINCIPLE 6 Transparency and Reporting **Compliant**

The Committee acts in a totally transparent manner and has a communications strategy which clearly demonstrates its commitment to report to, and indeed communicate with, all of its stakeholders in an effective manner. Closer examination reveals that the committee effectively fulfils the aims of this strategy in practice via it Annual Report, Website, PLOG, Road shows and annual benefit statements etc

In summary the Fund scores very highly when measured against the Myners Principles but could consider ways of enhancing its arrangements for performance assessment.

4.3 The Fund's approach to the CIPFA Knowledge and Skills Framework

4.3.1. The Fund takes a positive approach to the Framework. Existing knowledge and skill levels of members and officers appear to be good. The self assessment referred to in paragraph 3.3. and appendix 2 provides an excellent basis for further progress. All officers involved in supporting the Committee also complete the self assessment. Progress will need to be monitored and augmented by on-going training plans for both elected members and officers.

In summary the Fund has a good approach to the CIPFA Knowledge and Skills Framework.

Conclusions

5.1. The investment management structure of the Fund is fairly complex. There are nine investment managers and one of these manages approximately 24% of the Fund's assets.

5.2. DCLG statutory guidance for LGPS funds has increased the demands upon funds to keep all stakeholders informed of its progress and to take account of their views and reactions. In addition the management of pension funds' investments has become increasingly complex and burdensome as markets have become more volatile and a greater number of (often complex) investment products have become available. These complexities lead to an increasing need to maintain a training needs analysis for all participants in the Fund's management (both committee members and officers) particularly as the long term sustainability of the LGPS is being questioned from several quarters and subject to further change in the light of the Hutton Report.

5.3. Recommendation 17 of the Hutton Report says

"Every public service pension scheme (and individual LGPS fund) should have a ***properly constituted, trained and competent pensions board with (scheme) member nominees, responsible for meeting good standards of governance including effective and efficient administration****."*

Recommendation 18 says

*"****All public service pension schemes should issue regular benefit statements*** *to active scheme members, at least annually and without being requested and* ***promote the use of information technology*** *for providing information to members and employers"*

The Fund already has a very strong standard of governance which meets these requirements; it has an accessible and informative website and a very well formatted benefit statement. The suggestions and recommendations in this report are intended to maintain and improve standards still further. It is recognised that there is a limit to the capacity of the Committee and of its officers to cover all aspects of their responsibilities and remits. In that context it should be noted that in respect to the possible implementation of its reforms the Hutton report says in recommendation 27 that:

*"**Best practice governance arrangements** should be followed for **both business as usual and the transformation process,** for each scheme. And there will also **need to be the right resource**, on top of business as usual, to drive the reforms; particularly given the challenging timescale and scope of the reforms."*

The servicing of the current level of governance (i.e. the preparation of reports and maintenance of records for the relatively complex investment structure) is already burdensome and the desire to maintain and improve the Fund's governance will be an additional burden. Furthermore the changes propose by CLG in their statutory consultation published on 7 October 2011, followed by the offer on public service pensions made by Central Government on 2 November 2011, with the aim of avoiding strike action, clearly indicate that the administration of the LGPS is set to become even more complicated and significantly so.

5.4. When all these factors are taken into account, the Committee, as acknowledged in its business plan, should consider reviewing its structure and the level of resources currently allocated to the management and support of it and the Fund. It is acknowledged that these are unprecedented times in terms of budget reductions in local government and that the Committee will be conscious of the need to strike a balance between only spending what is necessary and standards of governance. For this reason the recommendations in this report have been given a suggested priority order (Priority 1 signifies recommended for immediate adoption; Priority 2 is for adoption within 1 year, and Priority 3 within 2 years). However, if achieving better standards of governance is the aim of the Committee, it is recommended that all of the actions identified in this report should be adopted over a period of up to two years.

5.5. In summary, the overall governance arrangements of the Fund are exceptionally good and some of the most positive aspects of governance are identified above. The Annual Report is comprehensive and contains all of the main statutory statements; the Fund's website is easy to access and is informative as is the annual benefits statement sent to contributors. However, there are some areas where arrangements (particularly aspects of performance assessment and the level of management resources) could be reviewed and where the Committee may need to demonstrate a continued challenge and review of its policies in order to reflect current best practice

Recommendations

6.1. The Committee should consider regularly (ideally annually) a number of key policy decisions, including the need or otherwise for the establishment of any sub-committee or panels and publish the reasons for the decisions arrived at. (Priority 2)

6.2. There should be a regular review of the Committee's structure and composition. (Priority 2)

6.3. The Committee should consider whether all members of the Scheme can be adequately represented by union officers and how non-union members can receive the same information that union members receive. (Priority 2)

6.4. The results of the WM measurement of the fund should be reported to the Committee annually and in person by a WM representative. (Priority 2)

6.5. A framework of annual targets and periodic performance reports should be adopted by the Committee for its pensions advisors and the degree of success of its own operation and decisions. (Priority 1)

6.6. The adequacy of the resources available to support the Committee should be reviewed in the light of growing demands for governance, investment, administrative and communications activity. (Priority 1)

6.7. The Committee should consider whether to continue with a single investment strategy for all employers when considering its valuation reports. (Priority 2)

6.8. The Committee is making good progress towards meeting the requirements of the CIPFA KSF as it applies to members of the Committee. The Committee may also wish to receive periodic reports on the progress being made regarding officers and the KSF. (Priority 2)

6.9. Consideration should be given to introducing either an Annual Meeting or an equivalent to which all stakeholders and advisors would be invited. (Priority 3)

6.10. The principle that investment managers' reports should be considered in private session should be challenged periodically by the Committee. (Priority 3)

Appendix 1

Participating employers at 31 March 2011

Scheduled bodies	Admitted bodies
Wiltshire Council	ABM Catering Ltd
Swindon Borough Council	Action for Blind People
Wiltshire Police Authority	Aster Group
Wiltshire & Swindon Fire Authority	Aster Property Management
Wiltshire Probation Trust	Barnados
Thamesdown Transport	Capita Business Services Ltd
Amesbury Parish Council	Caterlink
Blunsdon St Andrews Parish Council	CIPFA
Bradford-on-Avon Town Council	Community First
Calne Town Council	DC Leisure
Chippenham Town Council	Direct Cleaning
Corsham Town Council	English Landscapes
Cricklade Town Council	Focsa Services
Devizes Town Council	Norwest Hoist (Vinci)
Haydon Wick Parish Council	Ridgeway Community
Highworth Town Council	Ridgeway Partnership
Malmesbury Town Council	Salisbury and South Wilts Museum
Marlborough Town Council	Sarsen Housing Association
Melksham Town Council	Selwood Housing
Melksham Without Parish Council	Swindon Commercial Services
Mere Parish Council	Swindon Dance
Purton Parish Council	The Order of St John Care Trust
Salisbury City Council	Westlea Housing Association
Stratton St Margaret Parish Council	
Trowbridge Town Council	
Warminster Town Council	
Westbury Town Council	
Wilton Town Council	
Wootton Bassett Town Council	
Wroughton Parish Council	
New College	
Swindon College	
Wiltshire College	
Bishop Wordsworth Academy	
Goddard Park Primary School Academy	
Hardenhuish School Ltd	
Lavington Academy	
Sarum Academy	
South Wiltshire Grammar	
Swindon Academy	
Wellington Academy	

Appendix 2

Assessments & Training Undertaken

Members of the Committee

A workshop seminar was held on 5 November 2009 in order to assess the members' training needs in relation to the work of the Committee over the next four years. From the information obtained from this event a Members' Training Plan was drafted and approved by the Committee in November 2009.

This Training Plan was completed in November 2010 and covered the following topics:

Topic:	Delivered by:
Governance: • Legal Responsibility of Committee & Officers • Delegations to Officers • Governance Risk	• Members' briefing note • Short seminar
Benefits: • Discretions Policies of Fund and Employers • Member Communications (including Benefits Statements) • Assessing quality/risks of administration service • Data Protection / Security	• Internal training day • External conferences
Employer Types & Risks	• Internal training day
Actuarial Valuations & Funding	• Internal training day • External conferences
Investment Regulations & Guidance • LGPS / Myners	• Short seminar
Investment Strategy/Asset Allocation: • Employer covenant • Risk budgeting & Asset Allocation • Asset classes in detail • Active v Passive	• Internal training day • External conferences • Webcast
Investment Management: • Benchmark setting • Pooled v Segregated • Transaction costs / Fees / Commission Recapture • Securities Lending • Investment instruments	• Internal training day • External conferences • Webcast

- Investment terms
- Risk measurement
- Rebalancing

Environmental, Social & Governance:

- Voting
- Activism (e.g. LAPFF)
- Best Practice (e.g. UNPRI)

- Internal training day – PIRC
- External conferences – LAPFF conference

During September 2010, Members of the committee agreed to undertake a 'self –assessment' exercise that rated their knowledge in the areas covered by the CIPFA pension finance Knowledge & Skills Framework. These results were then used to inform and update a new Members Training Plan.

At the same time the Chairman and Vice-Chairman to the Committee were assessed on a 'one to one' basis with officers against the role specification outlined in the CIPFA pension finance Knowledge & Skills framework with additional training requirements identified within the plan specific for their roles.

This programme will run from November 2010 to 2013 and will take Members up to the next triennial valuation and local elections. It incorporates the ideas, themes and preferences identified in the self assessment exercise.

The plan will be delivered through a number of different methods. The intention is to hold at least two 'in-house' training days in the year, complemented by 'short seminars' on Committee days on subjects pertinent to the forthcoming agenda. Where applicable, external conferences are recommended to Members by officers if they are deemed to contain appropriate content. Briefing notes are also emailed to Members when applicable and occasionally webcasts and videos are made available if deemed specific enough. In addition the Fund will provide educational 'away-day' off-site training when there is any proposed substantial revision to the Fund's investment strategy.

The Members Training Plan for 2011-13 approved by the Committee on 2 December 2010 is outlined below.

WILTSHIRE PENSION FUND COMMITTEE – MEMBERS' TRAINING PLAN – NOVEMBER 2011-2013

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**Member's Handbook**	**Members' Briefing Notes (Electronic)**	**Short Seminars (before Committee meeting)**	**Internal Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (eg. Webcasts, Videos)**	**One-to-One Briefing with an officer**	**COMPLETION TARGET DATE**
GENERAL TRAINING								
General overview of LGPS	✓							Completed
Members' individual needs on specific areas arising during the year		✓			✓	✓	✓	As required - notify Head of Pensions
Specific items on committee agendas		✓	✓					As required
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework								
• LGPS discretions & policies			✓					31-Oct-11
• Implications of the Hutton Review		✓		✓	✓			30-Apr-11
Pensions Legislation & Governance:								
• Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme		✓		✓				30-Apr-12
• Review of Myners principles and associated CIPFA & SOLACE guidance		✓		✓				30-Apr-12
Pension Accounting & Auditing standards:								
• Accounts & Audit regulations and the legislative requirements			✓					31-Oct-11
Financial Services procurement:								
• Current public procurement policy & procedures				✓				31-Oct-11
• UK & EU procurement legislation				✓				31-Oct-11
Investment Performance & Risk Management:					✓			Invite to be circulated to relevent ones
• Monitoring asset returns relative to liabilities				✓				31-Oct-12
• Myners principles of performance management				✓				31-Oct-12
• Setting targets for committee and how to report against them				✓				31-Oct-12
Financial markets & products knowledge:								
• Refresh the importance of setting investment strategy			✓					31-May-12
• Limits placed by regulation on investment activities in the LGPS				✓				
• Understanding of the operations of the fixed income manager					✓			Visit to WAM by 30-Apr-11
• Understanding of Alternative asset classes				✓				30-Apr-11

TRAINING NEED	PROPOSED DELIVERY METHODS Member's Handbook	Members' Briefing Notes (Electronic)	Short Seminars (before Committee meeting)	Internal Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (eg. Webcasts, Videos)	One-to-One Briefing with an officer	COMPLETION TARGET DATE
Actuarial methods, standards and practices:								
• Considerations in relation to outsourcings and bulk transfers			✓					31-Oct-12
• Triennial Valuation refresher			✓					30-Apr-13
CHAIRMAN / VICE CHAIRMAN TRAINING								
• Fund benchmarking							✓	31-Oct-11
• Stakeholder feedback							✓	31-Oct-11
• Appreciation of changes to scheme rules					✓			Invite to be circulated to relevant ones

Officers to the Pension Fund Committee

There is already a framework in place for monitoring officers' performance and identifying training needs. Wiltshire Council's policy is that all officers receive an appraisal once a year with an interim review on a half yearly basis.

The publication of the CIPFA pension finance Knowledge and Skills Framework for practitioners in 2010 will form an additional reference source and framework for assessing and identifying key competencies in the relevant areas of the pension fund. This will assist in recognising training needs to be incorporated into learning and development plans ensuring the requisite knowledge and skills are obtained.

As the officer responsible for ensuring that the Fund's training policies and strategy are implemented, the Chief Finance Officer can confirm that the officers and Members charged with the financial decision making for the pension scheme collectively possess the requisite knowledge and skills necessary to discharge these duties and make decisions required during the reported period.

Michael Hudson
Chief Finance Officer
28 July 2011

Acknowledgements

CPN acknowledges the assistance given by David Anthony and Catherine Dix in the preparation of this Health Check

Health Check undertaken by Keith Bray (CPN Associate)
21 November 2011

Sources of Further Information

- Local Government Pension Scheme – Governance Compliance Statements Statutory Guidance November 2008 http://timeline.lge.gov.uk/Statutory%20Guidance%20and%20circulars/Governance_Statutory_Guidance.doc

- Updating the Myners principles: a response to consultation October 2008 http://www.hm-treasury.gov.uk/d/consult_myners_response_pu632.pdf

- Pensions Finance Knowledge and Skills Framework 2010 http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4be0162f07af422827403efdf4070620/Product/View/PUBLG065_66

- Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009) http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4be0162f07af422827403efdf4070620/Product/View/PUBLG062

- Hutton Report http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

- Wiltshire Pension Fund Annual Report 2010/11

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

1 December 2011

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. There has been one significant change in risks since the last report in September.

5. **PEN012: Over-reliance on key officers** – this risk has increased from green to amber to reflect the fact that a member of the team left in October and a further person will be taking flexible retirement in December. This means 3 posts are currently being filled on a temporary basis with a further 2 being held vacant. As illustrated in the CIPFA Benchmarking paper elsewhere on this agenda, the Pension Team is relatively inexperienced and operationally reliant on a number of key people for their knowledge and experience. This is of particular concern in the current environment when the administrative burden of the scheme is set to increase with the forthcoming changes. The current Pension Team restructure aims to address this by ensuring that staff with the relevant skills and knowledge are in the key positions and that staff are developed by encouraging training with clearer succession paths outlined which will hopefully help mitigate this risk.

Environmental Impacts of the Proposals

6. There no known environmental impact of this report.

Proposals

7. The Committee is asked to note the update of the Risk Register and measures being taken to mitigate the current medium risks.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

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

Wiltshire Pension Fund Risk Register				15-Nov-11			Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of 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.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Need to ensure ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed.	Martin Summers	Dec-11	2	2	4	Low	15 Nov 2011	→
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	Robust maintenance and update of 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.	2	1	2	Low	New electronic forms have been rolled out to all employers from April 2011 to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	15 Nov 2011	→
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. This shouldn't be an issue for the Wiltshire Pension Fund short term although longer term (5-10 yrs) investment income may be used to meet payments.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	4	1	4	Low	The "maturity" profile of cashflows could be brought forward if members choose to opt-out of the scheme following changes by the Government along with the reduction in public sector employees from the spending constraints. This will be reviewed at a high level when further information is known. Employers who experience a large number of outsourcings may also see maturing cashflow profiles.	David Anthony	Dec-11	4	1	4	Low	15 Nov 2011	→
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	David Anthony	Business Continuity Plan in place.	4	1	4	Low	Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required.	Andy Cunningham		4	1	4	Low	15 Nov 2011	→
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	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.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	15 Nov 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN006a	**Significant rises in employer contributions for secure employers 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 Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	15 Nov 2011	→
PEN006b	**Significant rises in employer contributions for non-secure employers 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 Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring as described above. The rates for the 2010 Valuation have now been agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	15 Nov 2011	→
PEN007a	**Significant rises in employer contributions for secure employers 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	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.	2	2	4	Low	Quarterly monitoring in investment movements is undertaken providing advance warning to employers. An investment strategy review was undertaken in 2011 and currently changes being implemented. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	Mar-12	3	2	6	Medium	15 Nov 2011	→
PEN007b	**Significant rises in employer contributions for non-secure employers 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	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.	2	2	4	Low	Quarterly monitoring as described above. The review of employers long term financial stability and stepping in of contribution rate prevented affordability issues for the 2010 Valuation.	Catherine Dix		3	2	6	Medium	15 Nov 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk Owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Further Actions necessary to manage the risk**	**Risk Action Owner**	**Date for completion of action**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Date of Review**	**Direction of Travel**
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	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	2	3	6	Medium	Altair needs monitoring to ensure output is in line with expectations, including review of the factors used in calculations. Workflow is partially implemented which will ensure consistent steps are taken by the team when processing tasks which will lead to manuals with all procedures to be drafted. The Pension Structure Team review ensure staff with the relevant skills & knowledge are in post to ensure all the team follow the same process & methods.	Martin Summers	Dec-11	1	2	2	Low	15 Nov 2011	→
PEN009	**Failure to hold personal data securely**	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies.	2	2	4	Low	It is intended to do a full data protection audit for the Fund shortly. Use of a secure portal is being investigated for employers to send in data and an imaging system will be implemented over the coming months to improve retention of documents.	Tim O'Connor	Mar-12	2	1	2	Low	15 Nov 2011	→
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 of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (e.g.. 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".	2	4	8	Medium	The latest Audit report highlighted that records were not in a consistent form and some pieces of information were missing. With the implementation of SAP, Altair and our systems review this is an area being developed. Detailed reconciliations are being undertaken between WC payroll and the Fund's data.	Tim O'Connor	Mar-12	2	1	2	Low	15 Nov 2011	→
PEN011	**Lack of expertise of Pension Fund Officers and Chief Finance Officer**	Professional judgement & activities	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	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.	3	2	6	Medium	Officers training requirements are identified through appraisals, which includes the Knowledge & Skills Framework. The Pension team is currently undergoing a Structure Review to ensure there are adequate resources and knowledge at the right levels to maintain service levels and undertake the projects resulting from the upcoming changes.	David Anthony	Dec-11	2	1	2	Low	15 Nov 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk Owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Further Actions necessary to manage the risk**	**Risk Action Owner**	**Date for completion of action**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Date of Review**	**Direction of Travel**
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 Anthony	Key people in the Section are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	3	6	Medium	The Pension's Team is undertaking a Structure Review. This is essential to ensure the right skills and knowledge are at the right levels to maintain service levels and implement the forthcoming changes. The team currently have three posts filled on a temporary basis and two vacancies.	David Anthony	Dec-11	2	1	2	Low	15 Nov 2011	↑
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.	David Anthony	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.	2	3	6	Medium	The proposed changes to the LGPS scheme is leading to misinformation being circulated. Difficultly is Fund don't have clarity on changes yet but there is a concern from potential opt-outs now & when the changes are implemented. Currently send out posters, employer notices to forward onto members and held pension clinics. Starting to discuss with employers regarding Reward Statements. The impact of NEST and their responsibility needs to be communicated to employers.	Zoe Stannard & Andy Cunningham	Dec-11	1	1	1	Low	15 Nov 2011	→
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 Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	15 Nov 2011	→
PEN015	**Failure to collect payments from ceasing employers**	Finance	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	2	2	4	Low	All new admitted bodies now require a guarantor to join the Fund. Work is on-going with ceased employers without a guarantor to ensure the costs are met.	Andrew Cunningham		2	1	2	Low	15 Nov 2011	→
PEN016	**Treasury Management**	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved an updated Treasury Management Strategy in March 2011 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £8m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	15 Nov 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN017	**Lack of expertise on Pension Fund Committee**	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	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 independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. Members have been assessed and a training plan set which is being implemented over the next two years.	David Anthony	Nov-12	2	1	2	Low	12 Sep 2011	→

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

1 DECEMBER 2011

GOVERNMENT CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES & PUBLIC PENSIONS REFORM UPDATE

Purpose of the Report

1. The purpose of this report is to update the Committee on the recent developments in the proposed changes to the Local Government Pension Scheme (LGPS) and to present a draft response to the Communities & Local Government (CLG) consultation on proposed increases and changes to the scheme accrual rates effective from 1 April 2012 for members' consideration.

Background

2. The Local Government Pension Scheme (LGPS) is facing significant changes over the next few years. There are a number of different proposals being considered but nothing has yet been adopted or agreed by the Government.

3. The changes facing the LGPS can be split into two phases:

    - Phase 1 is the short term proposals to save £900m per annum across all LGPS Fund by 2015; and

    - Phase 2 is the reforming of public sector pensions nationally based on the recommendations of the Hutton report to make them sustainable in the longer term that is due to come into place from April 2015 onwards.

Considerations for the Committee

Phase 1: Consultation on contribution increases for the LGPS

4. At the Spending Review in October 2010 the Chancellor announced that employee contributions to the LGPS would be increased in order to deliver short term cost savings of £900m per annum by 2014-15, equivalent to 3.2% of pay on average. These increases, which are to be phased in from April 2012, will also apply to the unfunded public sector schemes. However, the Government has since accepted that the funded LGPS can be treated differently and can use alternative ways to deliver the savings.

5. On 20 July 2011 the Secretary of State for the CLG invited the Local Government Group (LGG) and the local authority Trade Unions to propose their preferred approach to delivering the required cost savings by 2014-15. The LGG submitted a set of proposals to CLG on 21 September 2011 although these did not have the support of the Trade Unions. On 7 October 2011, CLG published a number of options for consultation. The closing date for response is 6 January 2012.

The Proposals

6. The consultation letter can be found in Appendix A. CLG have put forward two options to deliver the £900m per annum cost savings by 2014-15. This partially reflects the Government's previously stated aims of protecting low earners, with no increases in the employee contributions for those earning less than £15,000 on a full time equivalent basis and increases limited to 1.5% of pay by 2014-15 for those earning up to £21,000. In addition, higher earners pay progressively more reflecting their higher pensions although increases should be capped at 6% of pay.

7. Rather than making all the savings by increasing contributions (subject to the above constraints), CLG has proposed smaller increases in employee contributions combined with reductions in benefits:

Option 1:

- A phased increase in employee contributions from April 2012 to deliver £450m savings, equivalent to 1.5% increase in pensionable pay by 2014-2015. Detailed in the table below.

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

- A further £450m per annum to be achieved through a stepped reduction in the scheme's accrual rate from the current 1/60th to 1/64th in 2013-14 and 1/65th from April 2014. This change will of course impact all scheme members (including the lower paid).

Option 2:

- A lower phased increase in employee contributions from April 2012 to deliver £300m savings, equivalent to 1% increase in pensionable pay by 2014-15. Detailed in the table below.

Tariff Band	Current	2012/13	2013/14	2014/15
£0 - £12,900	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)

£43,301- £60,000	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 +	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

- Further savings of £600m per annum to be raised by a larger reduction in accrual rate from the current 1/60th currently to 1/67th from April 2014. Again, this change will of course impact all scheme members (including the lower paid).

8. The consultation document also mentions the option to increase retirement age – in combination with changes to the accrual rate and / or employees' contributions. The Government Actuary's Department has calculated that setting the LGPS normal pension age equal to the State Pension Age (SPA) would deliver annual savings of £330m if implemented for future service accruals. The LGG proposals are also included as an option.

9. Finally, the consultation proposes a technical amendment to the regulations to allow a downward revision of employer contributions rates between the three yearly actuarial valuations. This would allow employers to benefit from any savings achieved once the scheme amendments are introduced. However, doing this would require careful consideration.

Local Governments Group Proposal

10. The LGG proposed (see Annex B of Appendix A) that the first £300m of the £900m savings required by the Government should be met from an increase in the scheme's normal retirement age from 65 to 66 for benefits earned from April 2014.

11. They suggest that the remaining £600m could be met by offering employees earning more than £15,000 a choice between:

    - an increase in their contribution rates (1.5% for those earning £15k-£21k and between 2-2.5% for those above £21k), or

    - a worsening in the accrual rates from April 2014.

12. In addition, the LGG propose that employees earning less than £15,000 could be given the option of reducing their existing contribution rates in return for a worsened accrual rate.

CLG's Consultation Questions

13. The consultation paper invites responses to the following questions:

- **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings?

- **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?

- **Question 3** – Is there a tariff of alternative measures which consultees think would help to further minimise any opt outs from the scheme?

- **Question 4** – Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

- **Question 5** – Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with the state pension age as recommended to the Government in Lord Hutton's report.

Views of the Wiltshire Pension Fund

14. Any proposals that avoid the full 3.2% average increase in employee contributions by 2014-15 are supported as this should reduce the number of people opting out. Although the reductions in benefits are not ideal they may be unavoidable in order to minimise contribution increases and keep members in the scheme.

15. It would have been ideal if the Government brought forward its proposed post Hutton changes to enable implementation a year earlier, i.e. 2014-15 instead of 2015-16. It is anticipated these changes would achieve the required £900m savings as a minimum. It would also be a simpler message to communicate and from an administration viewpoint only involve a single change.

16. If the above is not achievable, then the next preferred option would be keeping contribution levels to a minimum by reducing the accrual rate. From the data extrapolated in the CLG consultation, it suggests the required savings could be achieved by reducing the accrual rate from 1/60th to 1/70th in 2014-15 and not increasing contribution rates. This would be extremely straightforward to implement, while helping the membership in not having to find additional money to pay increases in contributions. However, CLG have indicated this option could be unpalatable for the Government if the rest of the Public Services are facing an increase. Nevertheless, looking at the employee contribution rates across the sector the LGPS are already, in most cases, paying higher rates and retire later.

17. If employee contribution rate increases are mandatory in the short term then option 2 of the CLG's proposal would be the next preferred option. This proposes the lowest increase in employee contributions and requires only one change in the accrual rate.

18. There are genuine concern over the potential complexity for members. If CLG's proposals are adopted, many members would end up with pre-2008, post-2008, post-2012 and post-Hutton benefits which could all have different accrual rates and retirement ages. If the LGG proposal was adopted these complications would be increased further by members' ability to pay lower contributions for a lower accrual rate and vice versa.

19. The biggest challenge will be the communication to members. If the changes are not fully understood (or straight forward to explain) it could lead to members making uninformed decisions and may lead to higher opt out rates.

20. The CLG proposals will put additional strain on administration. Funds currently not only have to implement these short term changes in contributions and accrual rates, but have auto-enrolment and the post Hutton reforms in 2015 to contend with. However, a more immediate problem is the impact on employers payroll teams as the CLG proposals increase the members' contribution salary bandings from the current 7 to 11 by April 2012. Even if CLG announce these changes as soon as the consultation period ends in January 2012 it leaves a maximum of 2 months for all payroll providers to implement this change. The Fund's view is a lead time of at least 12 months is more reasonable and

would request that if the bandings have to increase then this takes place from April 2013 at the earliest.

21. To maintain simplicity it would be ideal for members and administrators if any changes proposed could at least dovetail as closely as possible with the post-Hutton (phase 2) reforms, i.e. in terms of contribution rates, accrual rates and retirement ages.

22. Although the CLG's proposals might allow reductions in employer rates prior to the 2013 valuations to reflect increases in employee contributions and / or reductions of benefits, discussions would need to take place with the actuary before doing so. The Fund already employs a stabilisation policy so contribution rates are currently below their theoretical rates. Also considering the current market conditions the case for doing this would remain weak.

23. The Fund has asked employers and its members for their views on the consultation although to date only one member's comments have been received.

24. Appendix B shows the proposed draft response to the consultation for consideration by this Committee.

Phase 2: Government Proposals for Reformed Public Services Schemes

25. On 2 November 2011 the Chief Secretary to the Treasury made a ministerial statement updating Parliament on the reform of public service pensions. Included in the statement was a new offer for consideration by the Trades Unions during the ongoing negotiations on public service pension reform. However, the Government said the offer was conditional dependent upon reaching agreement by the end of the year.

Proposals

26. The Government's proposals for preferred scheme design are the basis for the current reforms of both the unfunded schemes and the LGPS. The proposed scheme (known as the "Reference Scheme") is consistent with Lord Hutton's recommendations published in March 2011 and with government announcements since then.

27. The main features are therefore no surprise. It is understood that there are two significant changes from the "Reference Scheme" proposed earlier in October - a more generous accrual rate and the introduction of transitional protections for those close to retirement. The main features of the new scheme design are as follows:

    - Defined benefit scheme
    - Career average re-valued earnings (CARE) design
    - Accrued benefits remain protected with a final salary link when benefits are taken
    - A new accrual rate of 1/60th, an increase of 8% on the previously proposed 1/65th
    - Revaluation of accrued benefits in line with earnings increases and benefits increase in line with price inflation (CPI)
    - Normal retirement age (NRA) will be linked to State Pension Age
    - For those within 10 years of their current NRA (determined from 1 April 2012) there will be no change to when they can retire nor any decrease in the pension benefits from the current scheme. How this is introduced will be subject to negotiation within overall cost constraints.
    - Members will not be forced to work longer. They will have a choice when to retire (in some cases subject to an appropriate adjustment) and some will be covered through the protections set out above.

- Pension reforms will come in from 2015

28. The Government also confirmed that the reference scheme is based on the employee contributions which include the planned 3.2% of pay per annum average increase from 2015 for the purposes of delivering short term cost savings. As the LGPS has also retained the flexibility to deliver £900m per annum cost savings by 2015 through a combination of lower employee contribution increases and benefit changes (see consultation above in Phase 1) the final agreed scheme may look somewhat different.

29. The Government's paper also included details of scheme-specific "cost ceilings"- a total employer and employee contribution rate benchmark for the purpose of determining future scheme design.

30. The "cost ceiling" calculated by the Government Actuary's Department is the future service contribution rate required to deliver the "Reference Scheme" benefits based on the Treasury's financial assumptions and scheme specific data and demographic assumptions. It is understood that the cost ceilings published are higher than the previous cost ceilings used in discussions with unions from early October. The change in the cost ceilings reflects the more generous terms in the latest Reference Scheme design.

31. The gross cost ceiling for the LGPS was 17.3% after adjustment for the lower proposed increase to average LGPS employee contributions. This has now been increased to 20.4% to reflect the improved benefits and assumes an increase in employee contribution of 3%. It could be reduced at a later stage depending on the employee contribution increase coming out of the current consultation

32. The Government argues its revised offer is sustainable, affordable and fair to both taxpayers and scheme members over the long term. It also argues that the improved accrual rate, new transitional protections and corresponding increases in the cost ceiling should be sufficient to allow agreement with the unions. However, it does say these proposals are conditional on agreement being reached by the end of 2011 in scheme by scheme talks.

33. The Government's latest proposal confirms the retention of very good quality pensions for public service workers and offers complete protection (including future service benefits) for those currently within a decade of retirement. The latter is a new development and goes beyond what Lord Hutton proposed.

34. A key element of the reforms all along has been to ensure that public service workers still receive good quality pensions, but also that the cost of these pensions remains affordable for the State at a time when life expectancy continues to accelerate. These were the principles laid out by Lord Hutton in his original report, and have formed the basis for the proposals ever since. The Government's latest proposals recognise these factors.

35. A later retirement age appears unavoidable at a time when life expectancy is increasing by at least two years per decade. For these proposals to stand a chance of being sustainable it is critical that State Pension Age moves at a realistic rate to keep pace with improvements in life expectancy.

36. Unlike the unfunded schemes, the funded LGPS has the option of alternatives to a 3.2% increase in contributions such as smaller contribution increases combined with accrual rate reductions. Therefore there remains a case for a lower accrual rate and lower employee contributions to keep more people in the scheme. However, dovetailing short

and long term changes to minimise complexity for administration and members should be a primary objective.

Environmental Impact of the Proposal

37. There is no environmental impact of this proposal.

Financial Considerations & Risk Assessment

38. The financial considerations are discussed above.

39. The changes to the scheme will impact on the following risks which are reported elsewhere on this agenda.

40. **PEN003 Insufficient Funds to meet liabilities as they fall due**: increases in employee contributions or changes in benefits may lead to an increase in opt-outs and reducing income levels resulting in the Fund needing to review its investment strategy to use investment income to pay benefits. Further modelling is required to understand this impact when scheme changes have been finalised.

41. **PEN006 Significant rises in employer contributions for employers due to increase in liabilities**: Changes to the scheme will impact on the future service cost in pensions. This wont be known until the scheme detail is agreed.

42. **PEN013 Failure to Communicate properly with stakeholders**: Changes need to be careful communicated to members to ensure they have the relevant information to make informed decisions. The Fund is currently keeping employers updated of the changes for disseminating to staff and a programme of pension clinics and presentations are being undertaken to reduce this risk.

Reasons for Proposals

43. It is best practice to submit a response in relation to consultations.

Proposals

44. The Committee is asked to note the pensions reforms update and approve the draft response to the CLG consultation on the proposed increases and changes to the scheme accrual rates effective from 1 April 2012 as shown in Appendix B.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

Unpublished documents relied upon in the production of this report:

Hymans Robertson Consultation *on contribution increases for the LGPS* October 2011

Hymans Robertson *Government Proposals for Reformed Public Services Schemes* November 2011

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

7 October 2011

Dear Colleagues,

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

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

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

Introduction

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

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

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

Alternatively, postal responses may be sent to:

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

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

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

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

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

Policy context

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

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

Delivery of short term savings

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

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

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

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

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

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

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

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

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

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

Parameters for member contribution increases

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

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

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

Proposals for the Local Government Pension Scheme

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

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

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

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

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

A more detailed analysis is shown at Annex A

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

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

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

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

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

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

A more detailed analysis is shown at Annex A

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

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

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

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

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

Part time members

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

Provision allowing scheme employers to benefit from savings

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

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

Summary

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

Consultation responses

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

Other proposals

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

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

- be actuarially costed and verifiable and be clearly explained to provide efficient assessment

- be capable of implementation within the legal powers which govern the regulatory framework of the scheme and

- not take account of the recent changes in indexation from RPI to CPI or the impact of projected workforce reductions which have already been factored into recent LGPS pension fund valuations

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

- are invited to signal their intention to do so as soon as possible, please, and by **28 October** at the latest and

- are requested, please, to submit any specific costed options by no later than **25 November,** to allow an opportunity for discussion and appraisal

Next steps

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

- **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

- **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?

- **Question 3** – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

- **Question 4** - Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

- **Question 5** - Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

Use of information

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

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

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

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

Yours sincerely,

TBJ Crossley

T B J CROSSLEY

The consultation is addressed to:

The Chief Executive of:

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

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

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

Local Government Association (LGA)

Employers' Organisation
LGPC

ALACE
PPMA
SOLACE
CIPFA
ALAMA

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

NALC
Society of Local Council Clerks

Trades Union Congress	UCATT
UNISON	GMB
NAEIAC	NAPO
UNITE	

Equal Opportunities Commission

Annex A: Local Government Pension Scheme in England and Wales

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

Design principles

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

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

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

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

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

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

Existing tariff

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

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

Government proposals for the Local Government Pension Scheme

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

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

Approach 1

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

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

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

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

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

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

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

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

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

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

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

Impact of benefits of change in accrual

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

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

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

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

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

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

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

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

Approach 2

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

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

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

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

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

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

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

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

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

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

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

Impact of benefits of change in accrual

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

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

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

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

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

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

Annex B: Local Government Group proposals, 21 September 2011

Local Government Pension Scheme – Proposed increase in employee contributions

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

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

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

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

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

The key elements of the Group's proposals are:

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

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

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

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

We believe our proposals:

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

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

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

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

- reduce the risk of industrial action

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

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

1 Data

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

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

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

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

1.2 Core element 1 - increasing normal retirement age

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

1.3 Core element 2 - accrual or contribution rate changes

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

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

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

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

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

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

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

1.4 Core element 3 - reduce accrual option

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

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

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

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

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

1.5 Core element 3 – the lower paid

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

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

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

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

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

1.6 Core element 3 – the higher paid

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

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

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

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

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

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

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

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

1.7 Stepping any changes

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

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

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

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

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

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

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

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

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

WILTSHIRE COUNCIL
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The LGPS Pension Team
5/G6
Department for Communities and Local Government
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1 December 2011

Dear Mr Crossley,

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

Please find below the responses from the Wiltshire Pension Fund in regards to the above mentioned consultation.

Question 1: Do the proposals meet the policy and objectives to deliver the necessary level of savings?

Both proposals do appear to meet the parameters set out by the Government but concerns remain that any increase in employee contributions during this current period of members pay freezes and high inflation may lead to short term decisions being made, namely to opt out of the scheme.

This not only has a detrimental impact on the employees future pension provision, which ultimately may have to be picked up as means tested benefits but could also affect the long term cost to employers if schemes become cashflow negative as a result, forcing them to convert to a less “risky” investment strategy to meet benefit costs, ultimately pushing up employer contribution rates which in the majority of cases are funded by the local taxpayer.

Another major concern for the Fund, is the additional complexity of having short term changes to the scheme for three years that are not only difficult to explain to the membership but again may confuse them in their decision making. Therefore, if changes need to be made, dovetailing these with the 2015 changes would be most practical.

We believe serious consideration should be given to bringing forward the changes to the LGPS scheme due for 2015, i.e. 2014-15 instead of 2015-16. It is anticipated that based on the cost envelope already announced that these changes would achieve the required £900m savings as a minimum. This would be a simpler message to communicate and from an administration viewpoint only involve a single change.

There is recognition that implementing the 2015 changes a year early may pose its own difficulties and this may not be a workable solution. In this case, we recommend serious consideration is given to keeping contribution increase levels to a minimum, even if this means reducing the accrual rate further than outlined in the two proposals.

From an administration viewpoint this would be more straightforward to implement, while assisting members in the short term by not having to find additional money to pay increased contributions.

Although the Government have indicated that employee contributions need to increase, the fact that the LGPS is funded, allowing the flexibility to find savings elsewhere, must be kept in mind along with the knowledge that rates across the LGPS are already, in many cases, higher with later retirement dates.

If employee contribution rate increases are going to be mandatory in the short term then of the two options proposed within the consultation, option 2 would be the most favoured by the Fund. This proposes the lowest increase in employee contributions and requires only one change in the accrual rate.

Question 2: Are there any consequences or aspects of the proposals that have not been fully addressed?

There are genuine concerns over the potential complexity for members and the implementation of the changes for both the administering authorities and employer payroll providers with the timescales implied.

If either proposal is adopted, many members would end up with pre-2008, post-2008, post-2012 and post-Hutton benefits which could all have different accrual rates and retirement ages.

Pensions are at best difficult to explain to its members. These additional complexities will provide a massive challenge for communication teams especially in explaining the rationale and impact of both the short term changes (2012-2015) and longer term scheme redesign (2015 onwards). This is why dovetailing any changes in with the post 2015 scheme is viewed as being critical to provide a consistent message to ensure member's buy in, enabling them to make better informed decisions.

The implementation timescale is also extremely challenging if these changes are to start from April 2012, three months after the consultation closes.

The most immediate problem is the impact on administration and employers payroll teams as the two proposals both increase the members' contribution salary bandings from the current 7 to 11 by April 2012. The Fund's view is a lead time of at least 12 months is more reasonable and would request that if the bandings have to increase then this takes place from April 2013 at the earliest to allow time for this to be communicated and payroll systems to be adapted. This was an issue for the 2008 Scheme changes where the implementation time was much longer.

Again, to maintain simplicity it would be most appropriate for members and administrators if any changes could at least dovetail as closely as possible with the post-Hutton reforms, i.e. in terms of contribution rates, accrual rates and retirement ages.

Question 3: Is there a tariff of alternative measures which consultees think would help to further minimise any opt outs from the scheme?

As mentioned above, we believe that a proposal that doesn't increase contribution rates would be the most beneficial way of reducing opt outs within the current economic climate, even if this means reducing the accrual rate.

There is the potential to also increase the retirement age sooner. The concern with this is that the recent proposals by the Government for the post 2015 scheme will offer protection with those members within 10 years of retirement which may conflict with the ability for this option to achieve the desired savings.

Question 4: Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

The protection being given to the lower paid which accounts for over half of the scheme membership inevitably means that the remaining members have to pick up a proportionality higher increase in contribution rates. However, this will always be the case given the protection the Government wish to apply other than having no increase in contribution rates altogether.

Question 5: Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with the state pension age as recommended to the Government in Lord Hutton's report.

Any increase in the Normal Retirement Age (NRA) will be a concern for members. However, given the empirical evidence that the workforce are living longer the current NRA is ultimately not sustainable without pushing up the cost of pension provision. Therefore, from an administration viewpoint this would be a sensible step for the post 2015 scheme design to ensure further changes aren't required in the short term.

In terms of the short term changes it could be an option to look at if it reduces the need an increase in members' contributions as long as it is consistent with the proposed redesign of the scheme in 2015.

Ultimately, a move away from the notion of a NRA should be considered as flexible retirement is promoted (members may wish / want to retire at different ages) in line with the Hutton recommendations, with benefits based on the age the member wishes to leave after the age of 60.

Yours sincerely,

David Anthony
Head of Pensions
Wiltshire Pension Fund

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
01 December 2011

REVIEW OF CORPORATE GOVERNANCE ARRANGEMENTS

Purpose of the Report

1. The purpose of this report is to update Members on the current review being undertaken on the Wiltshire Pension Fund's Corporate Governance arrangements.

Background

2. The Corporate Governance arrangements of the Fund were last reviewed in November 2008. At that time the Committee agreed to contract with PIRC (Pensions & Investment Research Consultants Ltd) to provide a global service with a standard voting policy, including the provision of company research, reporting and casting of votes. As the current contract is due to expire on 11th January 2012 procurement regulations require this contract to be retendered.

3. A complementary report was also taken to the February 2009 Committee where it was agreed to continue with PRIC's standard voting policy rather than develop a bespoke voting policy specific to the Fund.

Consideration for the Committee

4. To ensure the Fund is achieving best value it is now an appropriate time to seek quotations from relevant suppliers in the market for the provision of a voting policy, company research prior to AGM's and EGM's, vote delivery, vote monitoring, identifying ESG risk and company engagement.

5. Due to the limited number of potential suppliers, the Fund is currently undertaking a 'Request for Quotation' procurement for a 2 year contract.

6. In line with the Council's Contract Regulations for contracts between £25,001 and £100,000 a Request for Quotation document has been issued to five suppliers.

7. Submissions are due to be returned by 28th November 2011.

8. This is a relatively low risk contract so it is proposed that the evaluation of these submissions will be undertaken by officers with the final decision referred to the Chairman and Vice Chairman for approval. The successful supplier will then be notified in mid December 2011 to ensure the award of contract on 12 January 2012.

Environmental Impact of the Proposals

9. It is generally accepted that companies that have good Corporate Governance arrangements perform better, which translates into increased financial value for the Fund. The Fund's current Corporate Governance policy is for PIRC to provide guidelines to all our equity investment managers including pooled funds. If the investment managers wish to vote contrary to PIRC guidelines they must notify officers in advance, and if agreed, they must disclose it within their quarterly monitoring report.

Risk Assessment

10. The award of this contract ultimately assists in ensuring the activities of the companies the Fund invest in enhance long term shareholder value which helps to mitigate risk PEN007 ***Significant rises in employer contributions due to poor / negative investment returns*** shown on the risk register elsewhere on this agenda and ensures the Fund encourages good corporate governance in those companies in which it invests.

Financial Considerations

11. The financial costs will be considered as part of the evaluation process and scored appropriately based on a 30% fee / 70% quality basis.

Reasons for Proposals

12. To update Members on the current review of the Fund's Corporate Governance arrangements and to request the decision concerning the new appointment be delegated to officers with approval from the Chairman and Vice Chairman.

Proposal

13. The Committee is asked to:

    a) Note the current review being undertaken of the Corporate Governance Arrangements, and

    b) To delegate the decision regarding the appointment for the term of the new contract to officers following approval by the Chairman and Vice Chairman.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: Catherine Dix, Fund Investment & Accounting Manager

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

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

Agenda Item 15

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