

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: Council Chamber - Council Offices, Browfort, Devizes
Date: Friday 22 July 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
	22.07.11	09:15	Avebury Room, Council Offices, Browfort, Devizes)

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 I

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

1. **Membership**

2. **Attendance of non-members of the Committee**

3. **Apologies for Absence**

4. **Minutes** *(Pages 1 - 16)*

To confirm the minutes of the meeting held on 12 May 2011 *(copy attached)*.

5. **Chairman's 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 and Councillors' Questions**

The Council welcomes contributions from members of the public.

Statements

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.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Director of Resources) no later than 5pm on Friday 15 July. Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8. **Internal Audit report** *(Pages 17 - 40)*

A report by Internal Audit outlining the outcomes and key risks of the recent audit of the Wiltshire Pension Fund.

9. **Pension Fund Risk Register** *(Pages 41 - 48)*

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

10. **Wiltshire Pension Fund 2010-11 Outturn Statement** *(Pages 49 - 50)*

A report on the Fund's income and expenditure for 2010-11.

11. **Statement of Investment Principles (SIP)** *(Pages 51 - 68)*

A report from the Chief Finance Officer requesting Committee approve the annually updated SIP for 2011.

12. **Wiltshire Pension Fund Business Plan 2011-14** *(Pages 69 - 80)*

A report outlines the proposed work plans for the Wiltshire Pension Fund for the next 3 years.

13. **Date of Next Meeting**

Members are asked to note that the next regular meeting of this Committee will be held on Thursday 29 September 2011.

14. **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.

15. **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

16. **South West Actuarial, Benefits & Investment Framework Update**

A verbal report will be given by the Head of Pensions of the current position of the setting up of the South West Framework for actuarial, benefits and investment services.

17. **Investment Structure Review** *(Pages 81 - 94)*

A confidential report prepared by the Chief Finance Officer which follows on from the recommendations approved at the May and makes proposals for future changes to the Investment Strategy and Strategic Asset Allocations.

18. **Western Asset Management - Review of 2010-11 & Plans for the Future**

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

19. **Fauchier Partners - Review of 2010-11 & Plans for the Future**

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

WILTSHIRE PENSION FUND COMMITTEE

**DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING
HELD ON 12 MAY 2011 AT COUNCIL CHAMBER - COUNCIL OFFICES,
BRADLEY ROAD, TROWBRIDGE.**

Present:

Mrs Lynda Croft, Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman),
Cllr Des Moffatt, Cllr Jeff Osborn, Cllr Mark Packard, Mr Mike Pankiewicz, Cllr Sheila Parker,
Mr Paul Potter and Mr Bob Summers

19. **Membership Changes**

None

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

Cllr John Brady
Cllr Fleur de Rhe-Philippe
Cllr Bill Moss

Mr Bob Summers, Independent Pension Advisor – CIPFA
Mrs Paul Potter, Hymans Robertson

Mr Chris Wilson, KPMG
Ms Gemma Broom, KPMG

Mr Robin Weir, Edinburgh Partners
Ken Fraser, Edinburgh Partners

Mr Tim Garratt, Baillie Gifford
Mr Steven Gardner, Baillie Gifford

21. **Apologies for Absence**

Cllr Peter Stoddart
Mr Tim Jackson
Mr Jim Edney

22. **Minutes**

The minutes of the meeting held on 01 March 2011 were presented.

Resolved:

To approve as a correct record and sign the minutes.

23. **Chairman's Announcements**

The Chairman apologised on behalf of officers for the delay in distribution of the late paper under Item 15 – Investments Quarterly Progress Report, and explained that this had been due to the delay in receiving the information from the Fund's Custodian BNY Mellon.

24. **Declarations of Interest**

None

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

None

26. **KPMG Interim Audit Report**

The Chairman introduced Mr Chris Wilson and Mrs Gemma Broom of auditors KPMG, who updated the committee on the key findings found within the interim audit report for 2010-11.

Chris Wilson highlighted the high importance of two changes during the 2010-11 financial year: these were the implementation of the Altair system and the changes due to the adoption of the new International Financial Reporting Standards (IFRS).

Work was continuing to improve the accounts production process, and it was explained that KPMG works in liaison with the Pension Fund's finance team and Wiltshire Council's internal Audit team, to avoid duplication and maximise effectiveness. It was clarified that KPMG were content that draft accounts were being prepared under the requisite levels to ensure full disclosure.

Key audit risks were:

- IFRS conversion process
- Valuation of investment assets
- Implementation of Altair

The audit fee for the 2010/11 audit is £45,450 (2009/10 was £46,950) and is calculated in reference to a number of factors set by the Audit Commission along with KPMG's assessment of audit risk and control environment.

Gemma Broom then gave an update on the work in progress at Wiltshire. Organisational controls are good; work on assessing IT controls was in progress and comments would be included in the final audit report in September. Regarding financial controls there were two minor deficiencies, namely that evidence of the independent review of the bank reconciliation process was not being performed, and there was no review of the manual journals evident.

These points were discussed, and officers explained that verifications of the reconciliations were of course happening, and work was underway to establish a transparent and reliable digital method of recording these and the other review processes undertaken by Pension Fund staff.

Chris Wilson explained that any further work resulting from these issues would not involve significant extra work or impact on the fees due to KPMG.

Bob Summers, the Independent Financial Adviser to the fund added that CIPFA were monitoring the implementation of the IFRS across funds, and would strive for consistency of approach.

Membership details appeared to now be fully in order, and following a final check in July, Gemma Broom confirmed this audit action point should be cleared in the next report.

The interim Chief Finance Officer also confirmed that a full 10 day review of the Altair system was a component of the general Audit work plan, to be approved at the Audit meeting of 13 May.

Resolved:

To note the interim Audit report.

27. **Pension Fund Risk Register**

The Head of the Pension Fund, David Anthony, summarised his report, and outlined the key changes in the risk register since the last meeting of the committee, as follows:

PEN001 – Failure to process pension payments and lump sums on time

This risk increased from green to amber as a result of access issues experienced by some pension fund staff. The planned rollout of new laptops to the team would ameliorate this risk in the future.

PEN006b / PEN007b: Significant rises in employer contributions for non-secure employers due to increases in liabilities / significant raises in employer contributions for non-secure employers due to poor/negative investment returns

This risk decreased from amber to green as a result of the agreement of rates for the 2010 Valuation with all employers.

PEN013: Failure to communicate properly with stakeholders

This risk remained at amber but a number of different issues have arisen, it was explained. The change in pension tax relief has been communicated to all members although the ability to provide the tax liability information next year (October 2012) still requires developing. The impact of National Employers Savings Trust (NEST) and the responsibilities of individual employers also need to be communicated.

A growing concern is the potential number of opt-outs following the Government's implementation of Lord Hutton's report into public sector pensions, which is expected to increase employee contribution rates by on average 3% from April 2012. Measures including reward statements are being considered to help retain existing members and efforts to make eligible non-members aware of the benefits they are missing out on will continue.

A typical reward statement would be a booklet constructed to emphasise the benefits of joining the pension scheme as part of a total remuneration offered by individual employers. The Pension Fund team were investigating the practicalities of this, as the information would form a part of the employers' own communications with their employees.

Other actions to offset this risk were being considered and include:

- ❖ Surgeries for members of the Local Government Pension Scheme
- ❖ Further newsletters for active members of the scheme
- ❖ Annual benefits letters to those who have opted-out – to show them the benefits they are missing out on.

The Independent Adviser re-iterated concerns about the effect of heightened contribution rates, and emphasised that evidence pointed to substantial drop-out rates, above the 1% suggested by Treasury as a consequence of the reforms. CIPFA would continue to question Central Government on the need for this and origins of the £900 million requirement that the increases were designed to fill. The opt-out estimates used by the Treasury were also based on historic numbers of participation in local government funds, which were likely to be inaccurate given the current round of job losses, retrenchment and general economic situation. The Interim Chief Finance Officer stated that he shared these concerns, and was looking to commission research into the likely effects and was also a high profile issue amongst the Society of County Treasurers.

Resolved:

To note the Pension Fund Risk Register

28. Administering Authority Discretions Policy

The Employer Relationship Manager outlined changes to the existing Administering Authority Discretions policy. The changes update the previous policy approved by this Committee on 28 February 2007 and had been drafted to cover all of the Administering Authority's discretions as detailed in the Local Government Pension Scheme (Administration) Regulations 2008, Clause 5, part 1.

It was explained that the policy provided guidelines for Pension Fund staff, confirmation of their responsibilities and transparency in processes undertaken.

A number of slides were circulated (attached to these minutes), outlining the changes in detail.

Clarification was sought regarding the following:

- 121 and 122A (2)(c): Inward Transfers – It was confirmed that transfers in and out of the Wiltshire Pension Fund scheme were valued using actuarial factors.
- The Head of Pensions confirmed he was satisfied that employees and employers would only be able to transfer the appropriate amount in and out of the scheme.

- The abolishment of the default retirement age would have little effect on the scheme: for its purposes the retirement age remained at 65.

Resolved:

To approve the updated Discretions Policy Statement

29. **Date of Next Meeting**

The date of the next meeting of the Wiltshire Pension Fund Committee was confirmed as Friday 22nd July.

30. **Urgent Items**

None

31. **Exclusion of the Public**

Resolved:

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 Minute numbers 15-18 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.

32. **Investment Structure Review**

Consideration was given to a confidential report by the Chief Financial Officer which set out the recommendations generated from discussions at the recent Investment Away Day and also various options for the future investment strategy of the Wiltshire Pension Fund.

After a full debate during which various options were examined, it was

Resolved:

That Wiltshire Pension Fund Committee:

- a) agrees an aspiration to move the Fund's equities split to 30% UK / 70% overseas as opportunities arise from changes in the equities mandates**
- b) will consider the implementation of a dynamic currency hedging programme and requests officers to provide further information to**

Members to enable them to agree to the procurement of these services, if so minded, at the July committee meeting

- c) requests officers to explore the options for implementing an element of the index-tracking against an alternative 'fundamental' index with a proposal for the July committee**
- d) agrees to continue the Capital International AIG mandate in its existing Sterling denominated guise until the July meeting, when options regarding the future of the mandate will be discussed.**
- e) will give consideration to Absolute Return Fund mandates, through a further education session in June for Members, in case the Fund wish to make a future strategic allocation**
- f) agrees to reduce the current 2% strategic allocation for active currency to 0% until further notice**
- g) will consider the alternative asset classes of infrastructure, private equity, commodities and timber with a view to making a strategic allocation (funded from the Fund's current equities allocation), at the July committee meeting, following a further education session in June for Members**
- h) will not currently consider a strategic allocation of assets to a loans mandate but this will be reviewed again once the Government's announcement on the implementation of the Hutton Review is known.**
- i) agrees to maintain the current allocation of property to 13% of the Fund and request officers to explore the possibilities of a global allocation with recommendations for implementation to be considered at a future committee meeting.**

33. Investments Quarterly Progress Report

The Fund Investment and Accounting Manager presented the confidential Wiltshire Pension Fund Investment Quarterly Progress Report. After significant discussion, during which the Committee considered the Authority's investment performance relative to other Local Government Pension Schemes which was published in the public domain, it was,

Resolved:

- a) To note the Quarterly Investment Report**
- b) That the reasons for the change in the Fund's peer group ranking be investigated by officers and conveyed to members of the committee.**

34. **Edinburgh Partners - Review of 2010-11 and plans for the future**

Robin Weir and Ken Fraser from Edinburgh Partners reviewed the previous year and outlined their plans for the future.

Resolved:

To note the information contained in the report and the investment policy detailed by Edinburgh Partners.

35. **Baillie Gifford - Review of 2010-11 and plans for the future**

Tim Garratt and Steven Gardner from Baillie Gifford reviewed the previous year and outlined their plans for the future.

Resolved

To note the information contained in the report and the investment policy detailed by Baillie Gifford.

(Duration of meeting: 10.30 am - 2.40 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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Local Government Pension Scheme



Administering Authorities Discretion Policies

Wiltshire Pension Fund
12th May 2011

Local Government Pension Scheme



1. Background

- Wiltshire Pension Fund & its employers must adhere to the LGPS Regulations 2008 (with amendments)
- The LGPS Regulations generally dictate how the Scheme is administered & detail the benefits.
- Regulations allow for certain decisions to be made either by individual employers or the Fund (“Administering Authority”).
- Statutory requirement employers outline their policy on these discretions in an **Employer Discretions Policy**. Furthermore, Pension Funds should outline their policy decisions in a **Administering Authority Discretions Policy**.

(Employers Discretion Policies available on WPF website)

Local Government Pension Scheme



2. New “Administering Authority” discretions policy

Key reasons for the proposed change

- Current Administering Authority’s discretion policy written in 2007, prior to introduction of 2008 LGPS Regulations – changed discretions available.
- **Impact:** Some current discretions lack clarity & others no longer required
- Some discretions need revising – difficult to implement & enforce (e.g. Pension abatement)

Local Government Pension Scheme



2. Administering Authority Discretion Policy – current policy

Key discretions (there are numerous other technical ones)

80(5): payment of strain on fund costs: The Administering Authority will require a capital payment to the fund for additional liabilities arising from early payment of benefits on redundancy, etc.

109: abatement of pension on re-employment:

The Administering Authority has determined that pensioners who retired with an enhancement on ill-health/redundancy and are re-employed in local government shall have the pension abated so the sum of pension and new earnings doesn't exceed the amount they would have earned in pre-retirement employment. The amount of abatement is restricted to that part of the pension derived from the enhancement.

Local Government Pension Scheme



2. Administering Authority Discretion Policy – current policy

Key discretions (there are numerous other technical ones)

119: bulk transfers

The Administering Authority will agree with employing authorities and new scheme trustees or managers that a bulk payment be made that represents a fair value to the Fund.

121 and 122A(2)(c): inward transfers

The Administering Authority has determined to accept transfer values into the LGPS, however, where appropriate, actuarial advice will be sought prior to the acceptance of a CETV. The administering authority will accept a transfer after the 12 month limit where the Employing Authority has agreed an extension of the period for an election.

Local Government Pension Scheme



2. Administering Authority Discretion Policy – Proposed Policy

Key discretions (there are numerous other technical ones)

A41(2) Whether to require any strain on Fund costs to be paid “up front” by Employing authority following redundancy, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible retirement (but not waiver of reduction in full on compassionate grounds).

WPF will require costs relating to redundancy, flexible retirement and the waiver of any actuarial reduction on flexible retirement to be paid “up front”. WPF will invoice for such payments and will require payment to be made within its normal invoice terms. If there is any cost to the fund for deferred benefits being released at the employers consent before the former member attains age 60 these may be (or will be) recharged to the former employer of the member concerned.

Local Government Pension Scheme



2. Administering Authority Discretion Policy – Proposed policy

Key discretions (there are numerous other technical ones)

A70(1)* & A71(4)(c) & T12

WPF will not abate pensions following re-employment.

A81(1)(b): Agree to bulk transfer payment

WPF will agree to bulk transfer payments where, with actuarial advice and where necessary with employer consultation, the Fund believes the amount transferred represents a fair valuation of benefits.

A83(9): Allow transfer of pension rights into The Fund

WPF will allow members to transfer in pension rights in accordance with the LGPS regulations.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
22 July 2011

INTERNAL AUDIT REPORT

Purpose of the Report

1. This report informs Members of the findings of the internal auditors report on the Wiltshire Pension Fund from their 2010/11 audit.

Background

2. The last Internal Audit report on the Wiltshire Pension Fund (WPF) was completed before the introduction of SAP in 2009. The audit approach was based on the publication "Good practice guidance: gaining assurance over the governance and administration of pension funds, and pension fund investment management – a guide for the internal auditor" issued by the Society of County Treasurers. The major focus of the audit was therefore to confirm that an effective control framework exists to provide the necessary sources of assurance over the governance and administration of the fund and investment management.

Key Considerations for the Committee

3. This report summarises the key issues from that report and the officers responses to the issues raised. The detailed Internal Audit report is appended to this report in the Appendix.
4. The report structure identifies:
 - The audit opinion, key risk issues and profile (pages 3-5)
 - The audit scope, objectives and findings (pages 6-17)
 - The action plan with officers responses (pages 18-21)
5. Overall Internal Audit has reported a "Substantial Assurance" opinion. This means that whilst there is basically a sound system of control, there are weaknesses which may put some of the service objectives at risk.
6. There were no high level risks although three medium level risks were identified as a result of the audit. The key issues for the WPF to address are:
 - The flow of data between the Wiltshire Council SAP payroll and WPF has been problematic since the implementation of SAP and work continues to ensure the most appropriate reports can be produced from SAP to enable effective transfer of information and reconciliations.
 - That more regular reconciliations between SAP and the WPF's Altair database are undertaken for key areas once the current reconciliation work has been completed to maintain the integrity of the two systems.

- The reconciliations between the SAP pension payroll and SAP general ledger are undertaken. This was an action point on the Council's general payroll procedures and controls but WPF need to ensure this doesn't get overlooked in the context of pensions to ensure the overpayments don't become irrecoverable.
7. Officers have worked with Internal Audit to draw up an action plan to respond to the issues raised and implement improvements in controls. The action plan is shown at the end of the report in the Appendix and updates on the implementation are proposed to be brought to this committee.
 8. This report informs Members of the Internal Audit findings and contains an action plan to address all the issues raised.

Risks Assessment

9. The risks reflected in this Internal Audit report are included in the Risk Register which is updated quarterly and presented to this Committee. None of the risks change the risk profile at a corporate level and only one of the risks was identified as having the potential for a 'moderate' impact on the service. Steps are currently being taken to reduce this risk while the Chief Finance Officer, Head of Pensions and Internal Audit will work to mitigate all the risks covered in this report.

Financial Implications

10. The fee for this audit is based on an annual recharge and the issues raised should enable Internal Audit to manage and monitor this review within the current budget.

Legal Implications

11. None have been identified as arising directly from this report.

Proposals

12. The Committee is asked to note the attached Internal Audit Report and its findings and to receive updates on the delivery of the actions to address the issues raised during 2011/12.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions

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

Internal Audit

Final Report

Department of Resources

Wiltshire Pension Fund

May 2011

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Distribution list

Final report to: Head of Pensions: David Anthony
 Chief Financial Officer: Michael Hudson
 Wiltshire Pension Fund Committee Chairman: Councillor Tony Deane
 Wiltshire Pension Fund Committee Vice Chairman: Councillor Charles Howard

EXECUTIVE SUMMARY

Overview

The last Internal Audit report on the Wiltshire Pension Fund (WPF) was completed before the introduction of SAP in 2009. Because there have been significant changes during the intervening period, the current report arises from a wide-ranging audit, encompassing a very broad range of pension fund activities and controls. This is expected to facilitate an ongoing involvement of internal audit with the WPF.

The audit approach has been based on the publication “Good practice guidance: gaining assurance over the governance and administration of pension funds, and pension fund investment management – a guide for the internal auditor” issued by the Society of County Treasurers. A major focus of the audit was therefore to confirm that an effective control framework exists to provide the necessary sources of assurance over the governance and administration of the fund, and investment management.

The audit has included review of the various policies and procedures carried out directly by the Pensions Team and the SAP HR/Payroll Team to provide an overview of the controls over pensions throughout the Council as the Administering Authority. The issues identified in this report as presenting higher risks largely concern interface issues with SAP-related processes and the overall opinion takes account of this wider context within which the WPF operates.

Audit Opinion

The Internal Audit opinion for the Wiltshire Pension Fund is **Substantial Assurance** – Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

The Action Plan on page 18 has been proposed by management to ensure that risk management strategies are put in place to avoid or reduce the identified risks, and to ensure that any residual risks are appropriately managed to reduce any impact or likelihood of these risks materialising. Frequent monitoring of the management of identified risks is essential. Our risk ratings are based on the level of risk when viewed from a service perspective, and are not intended to indicate that these ratings would necessarily apply at a corporate level.

High Risk Issues (as risk-rated by Internal Audit)

No High Level Risks have been identified as a result of this audit

Medium Risk Issues (as risk-rated by Internal Audit)

Risk	Action Proposed by Management	Profile Ref
Records in Altair and SAP may be, or become, inconsistent due to the lack of a fully functional regular and routine mechanism for exchanging new information between the two systems and updating each appropriately.	The flow of data between SAP payroll to the Pension Fund has been problematic since the implementation of SAP when it was envisaged that bespoke reporting could provide uploaded direct into Altair. Certain reports are being provided but issues remain with the data. A couple of reports in relation to unpaid and maternity leave are still to be provided since SAP went live which may lead to a backlog of cases. Work continues with Wiltshire SST Payroll to ensure these reports are provided and are fit for purpose on a monthly basis.	5
There does not seem to be a planned procedure or timetable for replicating the reconciliation between SAP and Altair once the current exercise has been completed.	The Pension Fund is currently undertaking a full reconciliation of all members' details. Once this is completed quarterly checks will be done on members and the overall high level values.	6
The lack of reconciliation between SAP pensions payroll and SAP general ledger increases the risk that errors will go unnoticed and that ultimately overpayments may prove irrecoverable.	Pensions are keen to undertake regular reconciliations between Pensions Payroll and the GL. This depends on the availability of SAP pension payroll reports.	11

Eight low risk issues have also been identified. These are discussed in the Audit Findings section and Action Plan included in the body of this report.

Risk Profile

The following profile shows management’s assessment of the likelihood and impact of the risks identified during the audit.

The numbers stated on the risk map refer to the risk references identified above, as well as to any low level risks detailed in the body of the report.

Impact	Significant				
	Moderate			6	
	Minor	3, 8		5, 11	
	Insignificant	1		2, 7, 9, 10	4
		Rare	Unlikely	Possible	Almost Certain
Likelihood					

AUDIT SCOPE AND OBJECTIVES

Audit Scope

- To ensure there is an effective overall assurance framework
- To identify risks and provide assurance that the Wiltshire Pension Fund systems of internal control are operating adequately and effectively

Control Objectives

The objectives of the audit are to seek assurance that:

1. there are appropriate sources of assurance for the governance, administration and investment management of the WPF;
2. documented policies and procedures comprehensively cover the operation of the pensions systems;
3. standing data is up-to-date, complete and accurate (including starters, leavers, transfers in and out and other amendments);
4. payments due to and from the fund are made and recorded properly, completely, accurately and promptly;
5. controls exist to prevent or minimise overpayments and to ensure that overpayments are effectively monitored and recovered;
6. adequate segregation of duties has been established in the systems;
7. appropriate exception reporting is used to monitor the operation of the Pensions system;
8. regular reconciliations between the fund data, payments (in and out), and the general ledger, are prepared and reviewed.

AUDIT FINDINGS

Control Objective 1:

there are appropriate sources of assurance for the governance, administration and investment management of the WPF

1.1 Risk management

Risk registers are regularly reviewed and a report is produced for each meeting of the Pensions Committee which convenes five times per year. These reports provide a clear commentary on how risks are being managed and identify emerging risks. The Risk register presented to the meeting on 1 March 2011 shows two risks (PEN006a and PEN007a) where the current risk rating is Low, but the target is Medium. This seems to be inconsistent with the report to the committee which refers to these risks moving from amber to green.

Risk

No risk identified requiring management attention.

1.2 Governance compliance statement

Section 31 of SI 239/2008, Local Government Pension Scheme (Administration) Regulations 2008, requires that a governance compliance statement is produced, published, reviewed regularly, revised as necessary, and copied to the Secretary of State. The Governance Compliance Statement, available on the WPF website, was last updated in February 2010 and appears to reasonably reflect the current governance arrangements.

Risk

No risk identified requiring management attention.

1.3 Stakeholder engagement

Section 67 of SI 239/2008, Local Government Pension Scheme (Administration) Regulations 2008, requires that a communications policy is produced, published, reviewed regularly, revised as necessary, and re-published. The policy should include information and publicity about the Scheme for members, representatives of members and employing authorities. It should also indicate the format, frequency and method of distributing such information or publicity.

The WPF communications policy, dating from October 2009, is available on the WPF website. The policy appears to largely represent the current communications arrangements but contains proposals which are awaiting full implementation. There is also a broken link (on page 4) to the committee reports, agendas and minutes on the Wiltshire Council website.

Risk 1 (Low)

The communications policy is beginning to show signs of ageing.

1.4 Reports and accounts

Section 34 of SI 239/2008, Local Government Pension Scheme (Administration) Regulations 2008, requires a pension fund report to be prepared annually to 31 March and specifies in some detail what such reports must include. This regulation also requires the report to be published by 1st December following the year end. Audited reports and accounts, going back several years, are available on the WPF website: The report for the year to 31 March 2010 was published well before the due date:

Audited reports are received from all investment managers each year and subject to a basic review. Actuarial information, including the latest agreed valuation report, is available on the WPF website. A valuation is carried out every three years; the latest as at 31 March 2007. A valuation as at 31 March 2010 has been carried out and recently agreed to enable publication by the statutory deadline of 31 March 2011.

Risk

No risk identified requiring management attention.

Control Objective 2:

Documented policies and procedures comprehensively cover the operation of the pensions systems

2.1 Policies and strategies

Further to the policies for governance and communications (covered above), there are a range of other policies, available on the WPF website, the more significant of which have been reviewed during this audit and include administration, cessation, funding, and treasury management.

Business plan

The Business Plan 2008-11, though clearly due for a refresh, also comprehensively covers the major aspects of the fund: governance, staffing; funding, actuarial; investments, accounting; benefits; and communication.

It is largely, but not wholly, testimony to the effective management of the fund that the Business Plan fairly rapidly becomes outdated. A number of planned actions have been achieved but there are also more recent developments (such as imaging, data accuracy and completeness and the work required implied by the Hutton review) which are not (at least specifically) reflected in the current published business plan.

Administration Strategy

The Local Government Pension Scheme (Administration) Regulations 2008 provide for Local Government Pension Scheme (LGPS) Funds to implement a Pension Administration Strategy, with an accompanying Service Level Agreement applicable to all employers in the Fund. Following consultation with employers and the WPF committee, the WPF Administration Strategy was implemented on 1 January 2010 and is available on the WPF website.

The Strategy includes a range of specific targets for employers and the fund, the main areas being: the timely, accurate payment of monies due to the Fund from employers; the timely, accurate notification of data required; and the prompt notification of expected changes. WPF has been collecting and analysing benefit administration performance related data, measuring both employer and Fund performance, since June 2009 and presents reports, highlighting areas for improvement, to the committee.

Cessation policy

The cessation policy sets out the methodology for calculating any deficit in the event that an employer leaves the fund. Prepared in collaboration with the Fund's Actuary, Hymans Robertson LLP, the current policy took effect from 1st March 2010.

Funding Strategy Statement

The purpose of the Funding Strategy Statement, which is required by statute, is to:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding liabilities.

A refresh of the previously agreed (2008) strategy with some additions was presented to the WPF Committee on 1st March 2011. The two main changes reflected:

- development of the stabilisation policy (paragraphs 3.4 – 3.8), and
- changes to the admissions policy (paragraphs 3.9, 3.10).

Treasury Management Strategy

The WPF has its own bank account which is independent from the Council's bank accounts. The Fund also has two associated sets of cash investments which are also managed separately. These arrangements act to prevent cross-subsidisation and ensure the Fund complies with the investment regulations. A natural accompaniment to these arrangements, the independent Treasury Management Strategy (TMS), sets out the Fund's aim to achieve the optimum return on investments commensurate with high levels of security and liquidity. Income from contributions and transfers-in significantly exceed the cost of pensions, transfers-out and other expenditure. Subject to retaining a float for about one month's cash requirement (£1.5 - £2 million), surplus funds are sent to one of the Fund's investment managers every second or third week of the following month.

The strategy provides for a maximum of £8 million to be held with any single counter-party. This level reasonably allows for unproblematic removal of any counter-party at short notice (if for example it becomes in-eligible).

The latest TMS was approved by the WPF committee on 1st March 2011.

Risk 2 (Low)

The Business Plan may be so overtaken by events that it becomes too outdated to remain useful.

2.2 Procedures

Various documents, of varying ages, describing a number of procedures, are available in various locations on SharePoint. Also, individuals may have their own personalised notes for undertaking the numerous pension administration and processing tasks. No one, co-ordinated and up to date manual is available as an authoritative and agreed source of reference.

In mitigation, however, pension processes are being systemised for running under the Workflow functionality available with the Altair software, which is currently used for the WPF. The advantages of Workflow are that it can ensure staff are taken step-by-step through any process and facilitates performance measurement. These are important considerations, especially in the light of transparent service level agreements and the accuracy requirements demanded by The Pensions Regulator. Workflow is not a set of ready-made pensions processes, but provides a framework for establishing customised processes for all staff to use. Setting up processes for Workflow does, however, require significant input from many, if not all staff to ensure that all eventualities are covered and tested. Depending upon the extent of implementation of processes under Workflow there will, in effect, be electronic documentation of procedures for everyone to follow.

Because procedures are currently under development, a full review is postponed to a later date.

Risk 3 (Low)

There are slight risks that some processes may not, at least initially, be adequately set up for Workflow, may not be set up at all, may not be adequately documented elsewhere, and therefore may not be consistently followed by all staff.

Control Objective 3:**standing data is up-to-date, complete and accurate (including starters, leavers, transfers in and out and other amendments)****3.1 Supporting documents**

For starters and leavers some employers (Wiltshire Council, Probation, Police civilians, Fire civilians and Swindon Borough Council) submit details under cover of emails from authorised staff. Other employers send hard-copy forms. Transfers in and out and other changes are notified on hard-copy forms which are signed by the member and/or by an administrator in the employing organisation.

Significant changes in administrative procedure are planned with the introduction of electronic document management, using imaging software. All documents will be scanned on a daily basis to enable prompt allocation for processing. Documents will then be regularly destroyed in accordance with a timetable to be decided. There are two possibilities for scanning: either directly on arrival by staff opening the post, or by the administrative staff to whom the case is allocated. It is not clear which method will work best so a trial period is proposed. It may be possible to run both trials simultaneously in order to speed up the decision process.

The accuracy requirements issued in June 2010 by the Pensions Regulator have necessitated a check of pensions processing to assess the extent of error. The Pensions Team selected two weeks (one in December and one in January) for 100% review which, seems to demonstrate there are relatively few issues of accuracy to be resolved.

Risk

None, pending the introduction of imaging.

3.2 Validity checks

The Pensions Team have an established procedure for seeking life certificates, but this can be a difficult and inconclusive process. The team use a professional tracing company to assist in collecting up to date information about individuals but despite this there are still several hundred pensioners who have not been traced with the result that their status and entitlements cannot be verified. There seems to be little more that can be cost-effectively done to establish the status and entitlements of individuals by direct contact through life certificate exercises. The risks associated with chasing persons deceased and of making erroneous payments (which may be either over- or under-payments) would seem to be only partially addressed by the suspension of payments to all currently untraceable individuals.

There have also been cases when information reported to SAP has not been made available to Altair and the latter system has been updated belatedly only when life certificate information has been returned.

It is clearly important that records in SAP and Altair are fully consistent with differences kept to an absolute minimum and ideally confined to matters of timing. It is understood that at any point in time either system may be more up to date than the other due to the different ways information may be received. It is therefore essential that the exchange of information between the two systems is both regular and frequent and results in appropriate updating between them. A periodic reconciliation whereby individuals are matched between the two systems is a further essential safeguard to ensure the integrity and validity of the records in both Altair and SAP.

At the time of the audit there did not appear to be a comprehensive and smoothly working mechanism for the mutual exchange of information and updating of each system by the other. The Operations Team were, however, undertaking a full reconciliation to check that the pensioners on Altair are consistent with the individuals recorded on SAP. The next step is to check the amounts being paid. This check could be facilitated by combining the various value records for each individual to enable the overall high values to be checked first

Risk 4 (Low)

Life certificates are not always returned and some individuals prove to be untraceable, resulting in risks of over- or under-payments. This may be a risk which cannot be efficiently managed,

Risk 5 (Medium)

Records in Altair and SAP may be, or become, inconsistent due to the lack of a fully functional regular and routine mechanism for exchanging new information between the two systems and updating each appropriately.

Risk 6 (Medium)

There does not seem to be a planned procedure or timetable for replicating the reconciliation between SAP and Altair once the current exercise has been completed.

Control Objective 4:

payments due to and from the fund are made and recorded properly, completely, accurately and promptly

4.1 Calculation and payment of pension benefits

Pensions staff do not have close involvement with all aspects of SAP Payroll and therefore there is limited understanding within the Pensions team of how SAP undertakes and presents its various calculations. This would not present an appreciable risk if Altair calculations were occasionally checked for accuracy and SAP and Altair were regularly reconciled. Automated calculations made by Altair are, however, rarely checked for accuracy though manual calculations are peer-reviewed by another member of the team. Following completion of a manual form, it is subsequently authorised, scanned and sent either to Payroll or Accounts Payable, depending upon the nature of the payment to be made. The Accounts Payable process is generally used for transfers out and refunds. Payments to other funds for transfers are authorised by a senior member of the Pensions Management Team. Lump sum payments are similarly authorised for payment by the Payroll system.

Risk 7 (Low)

There is a risk that Altair may calculate benefits incorrectly and SAP may make slightly different calculations.

4.2 Employer contributions

The Fund Investment Team maintains a spreadsheet which contains details of each employer's expected contributions against which the monthly remittances are monitored. There is also a quarterly reconciliation of contributions by employer to the SAP general ledger. Remittance details are received monthly from employers with more than 25 members, but all employers provide a contributions report at year end year-end against which the ongoing payments are reconciled. Therefore a full reconciliation can be confirmed only at the year end.

Risk 8 (Low)

Remittances details are received monthly from employers with more than 25 members, but all employers provide a contributions report at year end year-end against which the ongoing payments are reconciled. Therefore a full reconciliation can be confirmed only at the year end.

4.3 Investments

Detailed investment records are held by the various investment managers used by the WPF and by the Fund's global custodian, BNY Mellon. Every month BNY Mellon approve market valuations for each investment manager. These are notified to the Investment Team who assess the relative holdings of the investment managers and, subject to there being surplus funds available, arrange (via BNY Mellon) for funds to be sent to appropriate investment managers. This usually means those who appear to have relatively low balances. The Investment Team maintain a rebalancing spreadsheet which contains comprehensive details of the balances held by each investment manager and provides a clear and up to date record of all fund transactions.

Risk

No risk identified requiring management attention

Control Objective 5:

controls exist to prevent or minimise overpayments and to ensure that overpayments are effectively monitored and recovered

5.1 Management of overpayments

The existence of potential overpayments will, to some extent, be addressed by the life certificate exercises and the checks and reconciliations between Altair and SAP which have been noted above in Section 3. We have, however, also noted in Section 3 the absence of an adequate procedure for exchanging and updating information between Altair and SAP. There seems to be a particular problem relating to the timeliness of information from SAP relating to the overpayment (and indeed potential underpayments) of benefits.

Overpayment cases are allocated to team members who initiate letters to members or next of kin to request appropriate refund. There is, however, no central database or monitoring of pensions overpayments, so that senior management is unaware of the precise scale, age, value and nature of overpayments which occur and which remain outstanding. In the absence of a centrally managed policy and procedure, the recording, monitoring and hastening of overpayments is left to the discretion of team members and there is little scope for a systematic review by management

Risk 9 (Low)

Information from SAP relating to overpayments (and indeed potential underpayments) of benefits is not always supplied immediately (see risk under control 3.2).

Risk 10 (Low)

There is no systematic review by management of the scale, age, value and nature of overpayments which occur and no co-ordinated policy for managing those which remain outstanding.

Control Objective 6:

adequate segregation of duties has been established in the systems

6.1 Segregation of duties

Certain major functions are clearly split between the WPF Service Area and SAP pensions payroll. The WPF Service Area is managed through a number of teams which reflect the major division of tasks between team management and administration, fund investments, benefit administration, and technical operational matters. The latter is not solely focussed on systems issues but includes certain tasks related to the administration of specific pension accounts on behalf of the wider service and which may be passed to the benefits administration teams as necessary. The addition of, and changes to, data may be carried out by any member of the two benefits administration teams and those involved in administering SAP pension payroll accounts. Key reconciliations are carried out independently within the Investments and Operations teams.

The actual monthly payment of pensions, via SAP, is restricted, as with general payroll, to designated individuals in the Payroll Control Team, a part of the Council's HR/Payroll Operations Team. A recent Internal Audit report on the Council's Payroll service comments on the sound segregation of duties which this arrangement provides and, in response to the risk arising from over-reliance on a very limited number of staff for this fundamentally key process, HR/Payroll management have provided assurance that suitable contingency procedures have been established.

Risk

No risk identified requiring management attention.

Control Objective 7:

appropriate exception reporting is used to monitor the operation of the pensions system

7.1 Exception reporting

Pensions payroll and general payroll are both run by SAP using identical procedures. The principles for exception reporting for pensions payroll are therefore the same as those for general payroll. They encompass the production of “fatal errors” which must be corrected before payments can be made and a range of anomalies which are notified to, reviewed, and amended by, the relevant payroll practitioner. As with general payroll, there is little by way of systematic independent review of the amendments that are made, which also raises the possibility that some errors may not be resolved. Pensions payroll processing also generates a report listing all net payments in excess of £4,000 which are individually reviewed to ensure they are correct for payment.

Risk

The risk that errors may be overlooked or inappropriately amended is addressed in the Internal Audit Report on Payroll.

Control Objective 8:

regular reconciliations between the fund data, payments (in and out), and the general ledger, are prepared and reviewed

8.1 Payroll reconciliations

All payroll services, including pensions payroll are run by common processes within SAP by the same individuals in the Payroll Control Team. The principles for running the Council's payroll services therefore apply equally to the procedures for pensions payments. The main gap in the reconciliation procedures, which is common to the Council's general payroll, is the cessation of a regular reconciliation of the SAP pensions payroll to the SAP pensions general ledger. An action plan attached to a recent report by Internal Audit on the Council's general payroll procedures and controls refers to this matter in the context of general payroll, but there is a risk that such a reconciliation may be overlooked in the context of pensions.

Risk 11 (Medium)

The lack of reconciliation between SAP pensions payroll and SAP general ledger increases the risk that errors will go unnoticed and that ultimately overpayments may prove irrecoverable.

8.2 Membership reconciliations

Section 3.2 above refers to the check being undertaken by the Operations Team to ensure the consistency of Altair and SAP records and notes the need for this to be a regular control feature and not simply a one-off exercise.

Risk

See risk 6 under section 3.2 above

8.3 Investment reconciliations

Investment accounting records are regularly provided by BNY Mellon – the WPF's custodian – which are used to maintain the ledger. Book cost reconciliations, which focus on balances, and cash to market value reconciliations, which focus on movements, are completed effectively for each quarter. A further quarterly market value reconciliation, which includes realised and unrealised profit elements, is being developed with assistance from BNY Mellon. This is a task outstanding from last year when there was an inadequately identified balance at the year end, and is complicated by the potential for timing differences and double counting.

All investment reconciliations are subject to clear and effective management review.

Risk

No risk, not already known, has been identified which requires management attention

ACTION PLAN

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Action Proposed by Management	Responsible Officer and Target Date
1.	1.3	The communications policy is beginning to show signs of ageing.	Low	Low Impact = 1 Likelihood = 1	The intention is to review this document on a three year basis or sooner if material changes are required in the interim. This policy will be reviewed in the autumn to take account of the changes being proposed to communicating with stakeholders.	Zoe Stannard (Communications Manager) December 2011
2.	2.1	The Business Plan may be so overtaken by events that it becomes too outdated to remain useful.	Low	Low Impact = 1 Likelihood = 3	The intention has always been to refresh the Business Plan in 2011 to outline the key areas of work and future developments over the next 3 years.	David Anthony (Head of Pensions) July 2011
3.	2.2	There are slight risks that some processes may not, at least initially, be adequately set up for Workflow, may not be set up at all, may not be adequately documented elsewhere, and therefore may not be consistently followed by all staff.	Low	Low Impact = 2 Likelihood = 2	Workflow was being implemented during the audit. The hope is to have this fully implemented by the end of June. An objective for the team is to have a single manual for all processes for the team which is based on the flows generated in Workflow to ensure all team members undertake tasks in a consistent way.	Martin Summers (Pension Manager) September 2011
4.	3.2	Life certificates are not always returned and some individuals prove to be untraceable, resulting in risks of over- or under-payments. This may be a risk which cannot be efficiently managed,	Low	Low Impact = 1 Likelihood = 3	Life certificates are a difficult exercise due to the volumes involved. That said, 5 deaths have been identified which creates a saving to the Fund. From the original 12,000 only 343 remain outstanding. Ultimately we will stop the pension until these have been identified. In future this programme will be phased on a rolling 5 year programme to reduce the one off workload. This combined with the use of mortality screening services will ensure un-notified deaths are picked up earlier.	Tim O'Connor (Operations Manager) March 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Action Proposed by Management	Responsible Officer and Target Date
5.	3.2	Records in Altair and SAP may be, or become, inconsistent due to the lack of a fully functional regular and routine mechanism for exchanging new information between the two systems and updating each appropriately.	Medium	Medium Impact = 3 Likelihood = 3	The flow of data between SAP payroll to the Pension Fund has been problematic since the implementation of SAP when it was envisaged that bespoke reporting could provide uploaded direct into Altair. Certain reports are being provided but issues remain with the data. A couple of reports in relation to unpaid and maternity leave are still to be provided since SAP went live which may lead to a backlog of cases. Work continues with Wiltshire SST Payroll to ensure these reports are provided and are fit for purpose on a monthly basis.	Martin Summers (Pension Manager) & SST Payroll December 2011
6.	3.2	There does not seem to be a planned procedure or timetable for replicating the reconciliation between SAP and Altair once the current exercise has been completed.	Medium	Medium Impact = 3 Likelihood = 3	The Pension Fund is currently undertaking a full reconciliation of all members' details. Once this is completed quarterly checks will be done on members and the overall high level values	Martin Summers (Pension Manager) December 2011
7.	4.1	There is a risk that Altair may calculate benefits incorrectly and SAP may make slightly different calculations.	Low	Low Impact = 1 Likelihood = 2	There will always be small differences between SAP and Altair due to the different way they calculate pay increases and GMPs. However, we can obtain more assurance the calculations in Altair are correct by checking the factor tables used on a more regular and systematic basis.	Martin Summers (Pension Manager) December 2011
8.	4.2	Remittances details are received monthly from employers with more than 25 members but all employers provide a contributions report at year end year-end against which the ongoing payments are reconciled. Therefore a full reconciliation can be confirmed only at the year end.	Low	Low Impact = 2 Likelihood = 2	All employers have been notified of new requirements for providing the Fund with contribution information on a monthly basis that will enable monthly reconciliations to be undertaken.	Catherine Dix (Fund Investment & Accounting Manager) June 2011

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Action Proposed by Management	Responsible Officer and Target Date
9.	5.1	Information from SAP relating to overpayments (and indeed potential underpayments) of benefits is not always supplied immediately (see risk under control 3.2).	Low	Low Impact = 1 Likelihood = 3	We intend to agree with Payroll that they use the date of death provided by us (which is 99% correct) instead of waiting for receipt of the death certificate to speed up the process. All instructions will also be sent by email to avoid forms going missing.	Martin Summers (Pension Manager) June 2011
10.	5.1	There is no systematic review by management of the scale, age, value and nature of overpayments which occur and no co-ordinated policy for managing those which remain outstanding.	Low	Low Impact = 1 Likelihood = 3	The Pension team are developing a regular reporting system to ensure Senior Managers are aware of the outstanding cases which can be chased up with the Payroll Manager at their regular meetings.	David Anthony (Head of Pensions) June 2011
11.	8.1	The lack of reconciliation between SAP pensions payroll and SAP general ledger increases the risk that errors will go unnoticed and that ultimately overpayments may prove irrecoverable.	Medium	Medium Impact = 2 Likelihood = 3	Pensions are keen to undertake regular reconciliations between Pensions Payroll and the GL. This depends on the availability of SAP pension payroll reports.	Catherine Dix (Fund Investment & Accounting Manager) June 2011

Explanation of Audit Opinion and Risk Rating

Audit Opinion

Full Assurance	There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.
Substantial Assurance	Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.
Limited Assurance	Weaknesses in the system of control are such as to put service objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

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Risk Profile Matrix Rating

Red = High Risk

High level risks are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

Amber = Medium Risk

Medium level risks are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

Green = Low Risk

Low level risks are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
22 July 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. The following risks have changed or been updated since the last report to this Committee on 12 May 2011:
 - a) **PEN001: Failure to process pension payments and lump sums on time –** This has decreased from amber to green. This reflects the roll out of new laptops to the pension administration team. This should help prevent the service disruption caused by access issues to the pension database ALTAIR which occurred in April 2011 due to conflicts of old software. The use of laptops now means that should further issues arise with the network then they would be able to access ALTAIR remotely to ensure continuity in service.
 - b) **PEN004: Inability to keep service going due to loss of main office, computer system or staff –** This has decreased from amber to green. This reflects the roll out of the laptops mentioned above which now enables the whole team to work remotely from County Hall in the short term if necessary along with the delivery of the fire safes which means the microfiche (non digitalised records) are protected in the event of a fire.

Environmental Impacts of the Proposals

5. There no known environmental impact of this report.

Proposals

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

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				04-Jul-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	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Continuity of access to ALTAIR continues to be monitored. Access to hosted system was disrupted in April for a week which was resolved with patch to Internet Explorer. The team have all now been provided with new laptops which should prevent this in the future and provides remote access should problems reoccur on the Council's network.	Martin Summers		2	2	4	Low	4 July 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 AXISE/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	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	4 July 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. However, this would not conceivably be an issue for the Wiltshire Pension Fund for many years to come, because it is currently "immature" and very Cashflow positive.	David 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. Collection of opt-out data is being reviewed along with high level monitoring of cashflow profiles.	David Anthony		4	1	4	Low	4 July 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	Fire Proof Safe now store microfiches records which are not held in a digital format. Planned roll out of laptops to all team members will enable them to work remotely in future if required.	Andy Cunningham	Jul-11	4	1	4	Low	4 July 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	4 July 2011	→

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Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
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.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 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.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 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. A review of investment strategy is to be undertaken in May. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	May-11	3	2	6	Medium	4 July 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	Mar-11	3	2	6	Medium	4 July 2011	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
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	The Altair system is monitored to ensure its output remains in line with expectations and a review of the factors used in calculations is being undertaken. Workflow has been partially implemented which ensures consistent steps are taken by the team when processing tasks. A central manual with all procedures will be drafted by the Autumn to ensure all the team follow the same process & methods. The Fund currently has one dispute that has gone to the Pension Ombudsman.	Martin Summers / Catherine Dix	Sep-11	1	2	2	Low	4 July 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	Sep-11	2	1	2	Low	4 July 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), proactive 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	Aug-11	2	1	2	Low	4 July 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 will undergo a Management Review when the Hutton changes are known. This will ensure we have adequate resources and knowledge at the right levels moving forward.	David Anthony	Mar-11	2	1	2	Low	4 July 2011	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
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	2	4	Low	The Pension's Team are currently awaiting the Governments decision on Hutton recommendations before undertaken a Management Review. We currently have two posts filled on a temporary basis and also ensure there is adequate support to resource the increasing complexity of the Scheme.	David Anthony	Nov-11	2	1	2	Low	4 July 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 change in tax relief has now been communicated to all members. The impact of NEST and their responsibility needs to be communicated to employers. Concern remains of the potential number of opt-outs once the Government change the scheme. Increased awareness of the benefits to eligible non-members and discussions with employers regarding Reward Statements will take place.	Zoe Stannard & Andy Cunningham	Nov-11	1	1	1	Low	4 July 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	4 July 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	4 July 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	4 July 2011	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
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 Funds 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	4 July 2011	→

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PENSION FUND ADMINISTRATION BUDGET 2010-11 - OUTTURN STATEMENT

	2010/11			Explanations
	Budget £000	Actual £000	Variance £000	
Fund Investment				
Investment Management Fees				
Segregated Funds	3,253	2,595	658	Underspend due to Funds being removed from Baillie Gifford UK Mandate & no performance fee for Capital AIG
Pooled Funds *	1,499	1,148	351	Underspend due mainly to funds being removed from Record
	4,752	3,743	1,009	
1 Investment Administration	95	93	2	
2 Investment Custodial & Related Services	-25	-7	-18	Lower income from Securities Lending as a result of more challenging environment
3 Investment Consultancy	127	77	50	Underspend mainly due to reduced legal fees on tax claims for FIDS, FOKUS and Withholding Tax in the year
4 Corporate Governance Services	50	51	-1	
5 Performance Measurement	43	39	4	
	290	252	38	
Total Fund Investment Costs	5,042	3,995	1,047	
Scheme Administration				
6 Pension Scheme Administration	1,097	1,078	19	Underspend as a result of higher income on bank interest (£20K); reduced Finance dept recharges (55K) offset mainly by implementation costs of new pension database system in August 2010.
7 Actuarial Services	118	171	-53	Overspend relates to additional advice from Hymans arising from pension manager support, additional valuation work including the provision of early warning reports for employers. Fees are shown net of employer related costs that have been recharged.
8 Audit	80	34	46	Reduced External Audit fee for the year
9 Legal Advice	9	4	5	
10 Committee & Governance	48	36	12	
Total Fund Administration Costs	1,352	1,323	29	
TOTAL EXPENDITURE	6,394	5,318	1,076	
Pooled Funds fees*	-1,499	-1,148	-351	
TOTAL EXPENDITURE (Exc. Pooled Fees)	4,895	4,170	725	

* Fees on pooled funds are not paid directly by the Wiltshire Pension Fund, but are netted off the asset valuation.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
22 July 2011

STATEMENT OF INVESTMENT PRINCIPLES

Purpose of the Report

1. This report provides Members with an annually updated Statement of Investment Principles (SIP) for the Wiltshire Pension Fund. The Fund is currently undertaking a Strategic Review of its asset allocation and where applicable the SIP has been updated to reflect the changes agreed to date.

Background

2. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require administering authorities to produce a Statement of Investment Principles. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

The 2011 SIP

3. The SIP for the Wiltshire Pension Fund has now been refined a number of times and this latest version is fully updated to take account of all the revisions to the Investment Strategy agreed to date.
4. The main change since the publication of the previous SIP is the on-going current strategic review of asset allocations which started in April 2011. The SIP reflects the changes agreed to date.
5. The SIP also discusses the voluntary requirement of the Fund to produce a compliance statement with the Stewardship Code which was introduced in 2010. This outlines the how institutional investors disclose and discharge their stewardship responsibilities with reference to the assets it owns. To meet this requirement the Fund intends to publish a statement during 2011 following presentation to this committee in September.
6. The Fund's long term Investment Strategy aspirations remain as follows:
 - to move the UK equity allocation downwards towards 30%, in favour of global equities as opportunities arise,
 - to move the UK equity allocation to being predominantly managed passively and the global equity allocations to being predominantly actively managed, as opportunities arise, and
 - to increase the passive investment management in the Fund from the current 5% to a long term target of 20%, covering both equities and bonds, but this will only be implemented at times when it would be cost effective and have the least impact on returns.
7. There is also a requirement to report the Fund's compliance in line with the 6 revised Myners principles. As reported last year the previous 10 principles have now been reduced to 6. These 6 principles are a re-presentation of the 2002 ones with a stronger emphasis on training and development of Members and officers, the involvement of and

communication with stakeholders, performance management of the committee itself and of its advisors and a framework for measuring risk and the strength of the covenants of employers. Funds need to demonstrate compliance with these principles or explain the reasons why not.

8. The SIP has been updated to reflect the Fund's developments with its compliance to the 6 Myners principles since last year. The Fund is now fully compliant with the six principles although an area that still requires development is within principle 4. Performance Assessment where the implementation of a formal assessment of its advisers to ensure the cost, quality and consistency of the advice is monitored is still required.

Reasons for Proposals / Environmental Impact of the Proposals / Risk Assessment

9. This paper does not include new policy proposals. PEN011 and PEN017 on the Risk Register elsewhere on this agenda highlight the need to ensure that adequate training is in place for both Members and officers.

Proposal

10. The Committee is asked to approve the 2011 Statement of Investment Principles.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: Catherine Dix, Fund Investment & Accounting Manager

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

WILTSHIRE PENSION FUND

Statement of Investment Principles

Introductory Comment

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 requires administering authorities to produce Statements of Investment Principles (SIPs).

The SIP for the Wiltshire Pension Fund has now been refined a number of times and this latest version is fully updated to take account of the revisions to the Investment Strategy implemented to date. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and LGPS administering authorities are now required to prepare, publish and maintain statements of compliance against a set of six principles within the SIP.

Michael Hudson
Interim Chief Finance Officer
July 2011

Background to the Wiltshire Pension Fund

Outline of Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is available to all local authority employees and the staff of certain other public and associated bodies, apart from police and fire officers and teachers, who have their own specific schemes.

The LGPS is a funded defined benefit scheme. It is based on statutory provisions, issued by the central government department - Communities and Local Government. The rate of contributions paid by Scheme members and the calculation of benefits paid to them are contained in the statutory provisions. Employer bodies also contribute to the cost of the Scheme (see "Objectives of the Pension Fund").

Role of the Administering Authority

The LGPS is administered by individual "administering authorities", these being prescribed in statute. Wiltshire Council is the administering authority for the County area of Wiltshire, including Swindon. It has delegated this function to the Wiltshire Pension Fund Committee (the Committee).

Administering authorities are responsible for the administration of a Pension Fund established on behalf of all employer bodies in their Scheme. The Funds are NOT separate legal entities from administering authorities and therefore are not covered by trust law. Nevertheless, the role of the administering authority is very similar to that of a trustee and members of the Committee therefore act in a quasi trustee role.

Objectives of the Pension Fund

The Pension Fund is established to meet all future pension liabilities of Scheme members, whilst at the same time seeking to minimise the contributions that need to be paid in to the Fund by employer bodies. The level of employer contribution is assessed every three years through an actuarial valuation of the Fund.

This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit.

Liabilities of the Pension Fund

A fund's potential liabilities increase with every employee admitted to the Scheme, although these liabilities do not come into payment until scheme members reach retirement. The ratio of contributors to pensioners therefore impacts on the cash position of a fund. This is referred to as the maturity position of the fund.

Objectives of Investment Policy

The basic objective of LGPS pension fund investment is to minimise the level of contributions paid into the Fund by employer bodies to ensure its solvency. The

primary requirement of investment policy will therefore be to achieve a real return over the long term which is over and above both the rate of both wage and price inflation.

Funding Strategy Statement

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a document called a “Funding Strategy Statement” (FSS). The purpose of the FSS has been defined as being:

- a) *“To establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;*
- b) *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- c) *to take a prudent longer-term view of funding those liabilities.”*

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employers objective a) implies low contribution rates, because they would see pension liabilities being “best met” by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives.

Investment Powers

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations, which provide wide investment powers, subject to certain restrictions. They allow investment committees to increase their Fund’s exposure to certain type of investments, but only where proper advice has been obtained.

Responsibility for Decisions

The Committee is responsible for overall investment policy and for the implementation of appropriate investment management arrangements. In carrying out this role, the Committee receives advice from independent external advisors and from the Chief Finance Officer. It appoints external investment managers to implement investment policy, who are therefore responsible for day to day investment decisions.

The Committee believes these arrangements strike the right balance between their own overall responsibilities in acting in a quasi trustee role and having decisions taken with the most appropriate level of expertise available.

Policy on Investments

Types of Investments held

The Committee has freedom to operate within the Regulations. Its expectation, however, is that the majority of assets are invested in major stock markets, where the underlying investments can be easily traded if required.

The Fund therefore invests in quoted UK and overseas securities (equities, government and corporate fixed interest and index linked bonds), pooled funds managed by properly authorised organisations (property, equities, active currency and long-short equity hedge funds) and sterling and overseas cash deposits. The Fund also hedges 50-75% of its overseas currency exposure (obtained from equities). It may also invest in futures and options, as well as limited investment in direct property.

The Committee places specific constraints on the use of futures and options, but there are no constraints on the selection of individual investments.

Balance between the Various Types of Investments

An explanation of the relative amount to be invested in each type of investment is provided in the Section below on the strategic benchmark adopted by the Committee (see "Overall Investment Strategy"). In very broad terms, the result is that the Fund is to be invested 65% in equities, 19% in bonds, 13% in property, 2% in M&G Financing Fund and 1% in Passive Currency although these are currently being reviewed. However, that does not mean that these percentages need to be rigidly maintained.

Expected Returns on Investments

The Committee recognises that the past is not a reliable guide to the future in respect of predicted returns on investment. In addition, it recognises that the range of expected returns is greater for some asset classes than others and that the prospect of higher returns is usually accompanied by higher levels of risk.

Risk Control

The Committee regards the major control of risk to be required at the strategic asset allocation level and this has been taken into account in setting its overall investment strategy.

Further control on the Fund is imposed by employing three active equity managers of differing, but complementary styles (ie. growth, value, unbiased). The employment of a currency manager to manage a passive hedging currency mandate also reduces risk.

The Committee is less attracted to tight regional benchmarks that encourage managers to stay close to the benchmark for their own risk control reason, so the Fund's investments are increasingly moving towards unconstrained approaches, typically benchmarking against the World Index.

The Committee does not impose specific portfolio risk limits on its equity managers, as it believes the out performance target set for each manager provides sufficient guidance as to the level of risk that each manager should be taking.

Realisation of Investments

The Fund does not currently need to realise investments to meet its pension liabilities and it is projected that this will be the case for a number of years ahead.

Environmental, Social and Governance (ESG)

The Council seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting to the Pensions & Investment Research Consultants Limited (PIRC) who provides a global service for a standard voting policy and casting of votes along with the provision of company research and reporting tools.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities on corporate governance issues. The Forum currently has 52 member funds with assets of more than £100 billion.

The Council expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. This is insofar as these matters are regarded as impacting on the current and future valuations of individual investments. Taking account of such considerations is seen as forming part of the investment managers' normal fiduciary duty.

As such, the Council also believes it has a commitment to ensuring that companies in which it invests adopt a responsible attitude toward the environment, and adopt high ethical standards. Generally, such companies are expected to behave in a socially responsible manner by taking account of the interests of all stakeholders.

The Council seeks to achieve this objective by raising issues with companies in which it invests, to raise standards in a way that is consistent with long term shareholder value. Again, the Council primarily uses its membership of LAPFF to affect this policy.

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code is currently on a voluntary basis. The Wiltshire Pension Fund aims to publish its statement stating its compliance to the code during 2011. Two out of our three global equities managers currently comply with the code fully.

Securities Lending

The Council participates in a securities lending programme managed by its global custodian.

Other Matters

The Council will also underwrite, or sub-underwrite, new issues where the investment managers are prepared to hold the relevant shares.

A Commission Recapture programme was introduced in 2003-04, where an element of the commission that is paid to brokers on stock market transactions is recovered.

Current Investment Strategy

Solvency Position of the Wiltshire Pension Fund

The results of the actuarial valuation of the Fund as at 31 March 2010 showed that Fund liabilities totalled £1,563 million, whilst assets stood at £1,167 million. The Fund therefore had a deficit of assets of £396 million, or expressed another way, had a solvency level of 75%. This compared with a solvency position at 31 March 2007 of 85%. This decrease of 10% places Wiltshire Pension Fund broadly in line with the average LGPS scheme.

Funding Policy

The objectives of the Wiltshire Fund's funding policy, as expressed in its Funding Strategy Statement, include the following:

- to achieve a funding level of 100%, both at the whole Fund level and for the share attributable to individual employers, within a timescale that is prudent and affordable;
- to ensure that sufficient liquid funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to maximise the degree of stability in the level of each employer's contributions to the extent that the Administering Authority (in consultation with the actuary) is able to do so in a prudent and justifiable way;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

Fulfilment of Funding Strategy through Investment Strategy

The Fund has a very strong employer covenant, being funded substantially by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Although the Fund is maturing slowly, cash flow is very strong and is thought unlikely to be a problem for a number of years and so there is no need to plan for the forced selling of investments to meet pension liabilities. This also lends itself to a long-term view. However, this position will be monitored in regards to the Governments announcements on changes to the LGPS scheme and its subsequent impact on scheme members opting. The on-going restructuring of public bodies may also lead to a declining active membership as staffing levels are reduced.

As the Fund has a deficit of assets against liabilities, the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy in an attempt to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is ultimately the local tax-payer who feels the result of unstable employer rates, either through the Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets (“beta”) and investment managers (“alpha”) whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Goal

The Wiltshire Pension Fund’s investment objective is to achieve a relatively stable “real” return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities.

Investment Strategy

The Wiltshire Fund Pension Committee has put in place a strategy to achieve this goal through use of the following elements:

- A relatively large allocation to equity investment to achieve higher returns.

- Allocations to more diversified and less correlated asset classes such as bonds, property, hedge funds and income-based equity products to achieve stabilisation.
- The achievement of some “alpha” (manager) returns independently of “beta” (market) returns, through currency, high alpha equity and hedge fund strategies.

In terms of equity investment, there is significant concentration in the UK market and many of the larger companies in the UK Index derive a high proportion of their earnings overseas, so the extent to which they should be regarded as UK companies is questionable. As a consequence, the Fund’s proportion invested in UK equities has gradually been reduced to approximately 30% of total equity holdings, with a corresponding increase in the proportion invested in overseas/global equities, which now stands at 70%.

In July 2006, the Committee finalised its review of the Fund’s investment strategy, which had had two aims; to increase *expected* returns and reduced *expected* volatility. Both objectives were achieved, at least in theory, based on the modelling available from the Fund’s investment consultant.

In July 2008, 5% of the Fund was moved from Capital International’s “active” equity mandate and invested into a UK Passive Equity Mandate with Legal and General. The aim was to reduce management fees and reduce exposure to an underperforming equity manager.

In September 2008, a review of the current investment arrangements was undertaken in light of recent investment managers’ performance. The Committee agreed on the following long term investment aspirations for the Fund:

- To limit new individual mandates to allocations of no more than 12.5% of the overall Fund.
- To move the UK equity allocation downwards towards 30%, in favour of global equities as opportunities arise.
- To move the UK equity allocation to being predominantly managed passively and the global equity allocations to being predominantly actively managed, as opportunities arise.
- To increase the passive investment management in the Fund from the current 5% to a long term target of 20%, covering both equities and bonds, but this will only be implemented at times when it would be cost effective and have the least impact on returns.

Resulting from this review, on 1 July 2009 the index linked bond & gilt elements actively managed by Western Asset Management (WAM) (7% of the Fund) were moved to passive management by Legal & General, leaving WAM with an allocation of 10.5%. WAM will now be concentrating on corporate bonds, including the ability to invest overseas on a tactical basis where opportunities to add value arise.

The Committee is also agreed in May 2009 to invest 2% of its bond allocation into the M&G UK Companies Financing Fund, to take advantage of an opportunity arising from the reduced liquidity in the banking market. The Fund aims to provide a relatively stable bond like return over a 5 to 10 year time frame. This will be funded from the bond allocation passively managed by Legal & General.

In line with the long term aspirations namely to more passively manage its UK equities while reducing its allocation, the committee decided to terminate the Baillie Gifford UK mandate representing 12.5% of the Fund. The majority of this allocation (9.5%) was transferred in May 2010 to Legal & General to manage within their UK passive equities mandate with the remaining 3% passed to Edinburgh Partners as an addition to their Global Equities Fund.

In May 2011 the Committee approved to remove the 2% Strategic Allocation for active currency to 0% until further notice.

The resulting asset allocation is shown below:

ASSET ALLOCATION FROM JULY 2011	
Equities:	
Long-Only:	
UK	15.5%
Overseas (Global)	<u>37.0%</u>
	52.5%
Bonds	16.5%
Property	13.0%
Alternatives:	
Income Biased (long-only equities & bonds)	10.0%
Long-Short Equities - Global	5.0%
Currency (Passive)	1.0%
M& G Financing Fund	<u>2.0%</u>
	18.0%
TOTAL	100.0%

However, around 13% of the Alternatives shown above are equity based, so the effective equity allocation is just over 65%.

Investment Management Mandates

The table overleaf shows the manager and mandate line-up with effect from July 2011:

MANAGER/MANDATE ALLOCATION	
Capital International	
Global Equities	14.0%
Absolute Income Grower (Equities, Bonds & Cash)	10.0%
Baillie Gifford	
Global Equities	12.5%
Legal & General	
Passive UK Equities	15.5%
Passive Gilts (UK)	3.0%
Passive Index-Linked Bonds (UK)	3.0%
Western Asset Management	
Corporate Bonds (UK & Overseas)	10.5%
ING Real Estate	
Property Fund of Funds (UK & Europe)	13.0%
Edinburgh Partners	
Global Equities	10.5%
Fauchier Partners	
Equity Long-Short Fund of Funds (Global)	5.0%
Record Currency Management	
Passive Currency Hedge	1.0%
M&G Investment Management	
UK Companies Financing Fund	2.0%
TOTAL	100.0%

Timeframe for Investment Managers' Targets

Three year targets are generally preferred because of the need to see clear evidence of added value as soon as possible. The Committee recognises, however, that three year periods may not be appropriate for particular managers' styles, or for specific asset classes. Five year rolling periods, rather than three year periods, are therefore adopted where appropriate.

Review and Policy

The Committee formally monitors the investment performance of the managers against their individual performance targets and meets them on an annual basis, although it does receive quarterly performance and asset allocation figures based on reports provided by the Council's global custodian, BNY Mellon.

An annual check is made on how the overall strategic benchmark of the Fund is performing, relative to other funds, and in relation to the financial assumptions contained in the previous actuarial valuation.

The Committee also formally reviews its investment strategy once a year. Currently the Fund is undertaking a high level Strategic Review of its asset allocation. This is looking primarily at the investment structure to establish opportunities to improve the efficiency of the portfolio by increasing the expected returns, mainly through the use of diversification, for the same level of risk. This review started in April 2011 and will be approved by the Pension Fund Committee during the year.

Other Matters

Fee Structures

The Committee generally expects to have an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice and is easily understood. A performance related fee basis is sometimes set, however, if it is believed to be in the overall financial interests of the Fund. For investment advisory services, a fee is charged by the hour.

Compliance with Government (Myners) Investment Principles

In response to the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008), LGPS administering authorities will be required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001.

The Fund is required to report its approach to meeting the principles on a 'comply or explain' basis. The principles will apply to all pension committee members (elected and other appointments) and officers.

The Committee believes that these principles are complied with in broad terms and as set out in the following supplement.

Supplement

The Myners Principles

Compliance with Investment Principles for Defined Benefit Schemes

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.**

The Wiltshire Pension Fund is fully compliant with this principle. The Governance Compliance Statement outlines the organisation and operation of the Committee and shows compliance with the nine governance principles as set out in CLG's *Local Government Pension Scheme Governance Compliance Statements Statutory Guidance*.

The Fund also has a Business Plan outlining the purpose, scope, goals and business objectives along with an action plan and key target dates. The current plan will be refreshed at the July 2011 Committee meeting and will outline the major milestones for the next three years between 2011-2014. This enables the Committee to plan, anticipate and to resource key actions over this period which inform the Pension Fund's annual budget. The budget and Business Plan processes involve a continuous reappraisal of the adequacy of the Committee's resources.

A necessary element to ensure full compliance is the ability to demonstrate that both Committee Members and officers have sufficient expertise and knowledge to carry out their roles and duties.

The Committee does have a clear commitment to training. All Committee Members are given induction training and are supplied with a Members' handbook outlining their responsibilities, how the Fund is governed and its operations. A self assessment audit was undertaken of Members during July/August 2010, this identified areas for further development. As a result a Members training plan was also adopted by the Committee in December 2010 which covers the period 2011-2012 to ensure Members have knowledge of background issues to enable them to make informed decisions.

Training is delivered through the use of officers, external speakers, and tailored training events. Members are also encouraged to attend external seminars and conferences. All Members have full access to all training opportunities and are allowed to claim reasonable expenses.

The Committee has adopted the CIPFA Knowledge and Skills Framework (KSF). This specifically focuses on the roles of the Chairman, Vice Chairman, Members of

the Committee, Chief Finance Officer, Head of Pensions, Pension Fund Accountant and Investment officers.

Although the KSF is currently a voluntary code amended regulations are expected to require the Annual Report to include a statement of the actions undertaken and progress made in addressing any skills gap.

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.**

The Wiltshire Pension Fund is fully compliant with this principle. The Triennial Valuation 2010 report, Funding Statement Strategy, and Statement of Investment Principles explain in detail the objectives of the Fund.

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.**

The Wiltshire Pension Fund is fully compliant with the principle. The Funding Statement Strategy, Admissions Policy, and Cessation Policy all consider these issues.

A framework exists to monitor the risks for all areas of the Pension Fund including administration, operations, investments, accounting and governance. The register is based on the Council's standard "4x4" approach. The cause and impact of each risk are highlighted and assessed based on its impact and likelihood. This is measured against the target risk. The current risk controls to mitigate these risks are also highlighted. The Committee receive this specific Pension Fund Risk Register on a quarterly basis with an update of any changes since the last report for comment and approval.

The Committee also receive reports in relation to internal controls from both internal and external auditors. The Fund also participates in the Club Vita longevity project which provides specific longevity analysis.

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**

The Wiltshire Pension Fund is fully compliant with this principle with reference to measuring performance of investments and investment managers.

The Fund currently undertakes an assessment of its advisors on a more qualitative basis and market tests them when contracts are due for renewal. A more formal arrangement for assessments could be developed for advisors to measure cost, quality and consistency of advice received.

The Committee believes that its 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. Work remains on-going to achieve this aim while the Governance Compliance Statement in conjunction with the continued adoption of CIPFA's Knowledge and Skills framework standards will ensure the continue effectiveness of the Committee.

An Administration Strategy was adopted by this Committee in November 2009 that outlines the administrative service standards expected from by both the Wiltshire Pension Fund and employers. This ensures the efficient administration of the scheme and regular updates are provided to Committee on its progress.

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**

The Wiltshire Pension Fund is fully compliant with this principle. It outsources its voting responsibilities to PIRC on a global basis. PIRC's voting guidelines are based on their experience with Corporate Governance issues and take account of environmental, social and governance factors. They link their underlying principles to the Combined Code published by the Financial Reporting Council in 2003 and Revised Corporate Governance Code in 2009 although their view on best practice tends to go beyond the existing legal and regulatory requirements.

PIRC report quarterly on its voting activity and these reports are available to Committee Members through the website. PIRC also present annually to the Committee which assists Members to play a more active role in the Fund's voting activities.

The Fund undertakes its engagement activities through its membership of the Local Authority Pension Fund Forum. Further details are contained within the SIP which is available to all stakeholders. It is also intended that the Fund will produce a compliance statement in respect of the Stewardship Code.

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.**

The Wiltshire Pension Fund is fully compliant with this principle. It produces the following documents which are approved by the Committee and communicated to the appropriate stakeholders to fulfil requirement on transparency:

- Governance Compliance Statement
- Pension Fund Annual Report
- Funding Strategy Statement
- Communications Policy
- Statement of Investment Principles

These are all available on the Fund's website, so any stakeholder or other interested party has access to this information.

The Communications Policy outlines the different channels and frequency of communications while also indentifying the different stakeholders.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

22 July 2011

WILTSHIRE PENSION FUND BUSINESS PLAN 2011-14

Purpose of the Report

1. The purpose of this report is to bring Members the draft Wiltshire Pension Fund Business Plan 2011-14 for comment and approval.

Background

2. The Myners Review of Institutional Investment in the UK (published in 2001 and revised in 2008) resulted in the publication of 6 investment principles. Principle 1 (Effective Decision Making) recommended that Pension Funds produce a Business Plan.
3. The last Business Plan was approved by this Committee on 17 June 2008 which set out a Forward Plan for the next three years (2008-11). The purpose of the Forward Plan was to set out the key developments and major tasks for the plan period.
4. The benefit of having integrated all aspects of Wiltshire Pension Fund activity into one section under a Head of Pensions is it enables the development of a more unified approach to the management of the Fund.
5. The future of Public Sector Pension schemes remains currently uncertain as the Government's implementation of the Hutton report and its own objectives to reduce the cost to the tax payer is still pending with an announcement unlikely until October 2011. This plan attempts to outline the key objectives and actions that the Wiltshire Pension Fund will need to consider over the next three years.

Considerations for the Committee

6. The draft Wiltshire Pension Fund Business Plan 2011-14 is attached as the Appendix. Due to the current uncertainty surrounding the LGPS, this plan will need to be reviewed by its officers' annually and amended to account for upcoming changes.
7. Members are invited to review, suggest amendments and approve it.

Environmental Impact of the Proposal

8. There is no environmental impact of this proposal.

Financial Considerations & Risk Assessment

9. Adoption of the Business Plan does not in itself commit any expenditure or increase risk. The financial implications of the proposed actions will be brought forward to the Committee in the usual way when the Fund Administration Budget is agreed. There is an action within the plan to set 3 year financial plans for the Fund which will help manage resources in line with its activities over this period. The risks of each development will be analysed in detail at the time, with the Committee approval sought if appropriate.

Reasons for Proposals

10. It is best practice to develop a Business Plan for Local Government Pension Funds.

Proposals

11. The Committee is asked to approve the draft Wiltshire Pension Fund Business Plan 2011-14.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony

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



WILTSHIRE PENSION FUND BUSINESS PLAN 2011-14

INTRODUCTION

The purpose of this Wiltshire Pension Fund Business Plan 2011-14 is to outline the Fund's goal and objectives, as well as providing an Action Plan of the key priorities over the next three years in order to further these objectives.

The Local Government Pension Scheme (LGPS) along with all other public sector schemes are currently being reviewed by the Government and substantial changes are expected for implementation by 2015. At time of writing the exact changes are not known and the Business Plan may need reviewing and updating on a regular basis to incorporate these.

The Fund also faces increasing complexities and there are a number of new legislation that will fundamentally change the way in which we work and our relationship with customers and partners. These currently include the changes to Record Keeping, changes to the tax relief allowances, and auto-enrolment for employers. All this means the Fund faces challenging times and will need to be flexible and responsive enough to adapt to all these changes.

PURPOSE & SCOPE OF THE FUND

The Wiltshire Pension Fund (WPF) is one of a hundred funds making up the Local Government Pension Scheme (LGPS). Wiltshire Council is the statutorily appointed Administering Authority for the WPF. The LGPS is a final salary scheme, funded principally by its constituent employers and members, with assistance from investment returns. Unlike other public sector pension schemes, the LGPS is fully invested in financial markets and aimed to be fully funded over the long-term.

The Wiltshire Pension Fund has 48,800 members from 64 constituent employer bodies. The value of the investment assets currently under management at 31 March 2011 was £1.287bn. The cost of administering the Wiltshire Pension Fund in 2010-11 was £1.343m (0.10% of total assets), with costs of fund investment adding a further £4.049m (0.31%).

Contribution inflows into the Fund were £86.210m in 2010-11 and benefits outflows were £61.418m.

GOVERNANCE & MANAGEMENT OF THE FUND

The Wiltshire Pension Fund Committee is responsible for the proper administration of the Fund in all its aspects. The Committee has its delegation direct from the full Council, rather than the Cabinet (ie. the Executive), to avoid potential conflicts of interest. Under the Council's constitution, the Committee has the power to "...*make decisions on matters of significant policy...*". The key focus of the Committee tends to be on investments, particularly asset allocation and the appointment and monitoring of investment managers, of which there are currently 9 managing the whole investment portfolio.

The Committee is made up of 5 Wiltshire Council members, 2 members from Swindon Borough Council, 2 representatives from admitted bodies, as well as 2 non-voting UNISON representatives. The Fund's Investment Adviser and the Independent Pension Fund Advisor also attend most meetings.

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...". This responsibility is achieved with the assistance of the Head of Pensions, who has a team of 20 people solely dedicated to working on the Fund. This includes investments management and associated services, governance, accounting, benefits administration and operations (which is done entirely in-house), communications, employer relations and funding.

CUSTOMERS OF THE FUND

The Fund's customers fall into three categories.

a) Scheme Members (ie. our "Purpose of Existence"):

- Contributors/Actives (c19,400)
- Deferred Pensioners (c17,900)
- Pensioners (c11,500)

b) Employers of the Scheme Members (c64):

- At present the employee contributions are fixed according to salary level, so the effect of variations in costs and investment returns are felt by the employers. Coupled with this, the Fund is also very dependant on information from the employers in order to provide an effective service to members, so they are also a very important customer group.

c) Regulatory Bodies & Stakeholders, principally:

- The (Department for) Communities and Local Government – the regulatory body responsible for the LGPS
- HM Revenues & Customs
- The Department for Work & Pensions
- Partners including Investment Managers & Advisers

THE GOALS AND VISION OF THE FUND

The goals of the Fund are adapted from those set out in the Wiltshire Council Business Plan which can be defined as:

- To provide high quality, low cost customer focused services
- To be open and honest in all our decision making
- To work with our partners to support our employer bodies and Fund members

The Fund also has its own specific goals as set out in its Funding Strategy Statement with the two main ones being:

- To achieve a funding level of 100%, both at the whole fund level and for the share attributable to individual employers, within a timescale that is prudent and affordable;

- To ensure that sufficient liquid funds are available to meet all benefits as they fall due for payment.

The Fund has also worked for a number of years to the maxim “It’s not about services, it’s about people’s lives” (taken from Sue Redmond – Director of Community Services, Wiltshire Council).

The vision for the Fund is aligned to those of the Finance Department which is by 2014:

‘to exceed customer expectations through a single motivated and empowered team that is recognised for providing exceptional professional, high performing, can do and efficient pension services. We intend to demonstrate how we add value through continually improving and working effectively with our customers to jointly contribute to the excellent and efficient delivery of services to the Fund’s stakeholders.’

The Fund intends to achieve this vision by focussing on the following key areas

- *The promotion of the key benefits of the LGPS and ensuring increased awareness amongst the eligible membership.*
- *To ensure the Fund’s services are considered excellent by its stakeholders*
- *To work more collaboratively and in partnership with other organisations to enable where possible costs to be reduced or resources maximised to deliver continued value for money and improved performance*
- *To ensure the team have the correct skills and competences to deliver the ever increasing complexities of LGPS, Police and Fire Schemes*
- *To establish the Fund as a leading role model in the Local Government pensions sector.*

The way we do things and how we communicate to all our stakeholders is critical. The Fund has undergone a Systems Thinking LEAN review in 2008 which helped establish a culture of looking at issues from the customers’ viewpoint in all we do. The Fund also incorporates the values of Wiltshire Council that embraces change, treats everybody fairly, places its customers first, and adopts a ‘can-do’ approach in everything it does.

The Fund has already been recognised as being one of the leaders in terms of its organisational structure, having a dedicated pension team (which is now being replicated nationally), being the only LGPS Fund who accounts for its assets on a ‘unitised’ basis for all its employers, being actively involved in the setting up of new framework agreements for South West funds, and being one of the first funds to upgrade its pensions database (Altair) to a hosted system. The next few years will continue to be an opportunity to deliver further improvements in a period of unprecedented change for local government pensions.

BUSINESS OBJECTIVES OF THE FUND

1. To ensure the effective management and governance of the Fund in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory and best practice requirements.

2. To achieve a relatively stable “real” investment return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities and to achieve a 100% funding level over a suitable timescale. This implies:
 - a) The setting of appropriate investment strategies;
 - b) The appointment of capable investment managers;
 - c) The monitoring and reporting of investment managers’ performance, with appropriate action being taken in the event of underperformance.
3. To provide a lean, effective, customer friendly benefits administration service, which implies:
 - a) The calculation and payment of scheme benefits accurately and promptly;
 - b) The accurate maintenance of the records of all members of the Fund; and
 - c) Effective communication, as well as fair explanation and support to the Fund’s scheme members and employer bodies.
4. To have in place effective documented business relationships with all the Fund’s employer bodies.
5. To ensure the proper administration, accounting and reporting of all the Fund’s financial affairs.
6. To recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills.
7. To become a role model of best practice amongst LGPS Funds and to be recognised by our customers as providing an excellent service.
8. To work collaboratively and in partnership with both internal and external organisations to provide higher quality services at a lower cost.

KEY POLICY DOCUMENTS

Key policy documents which the reader may wish to refer to are available on the Wiltshire Pension Fund website (www.wiltshirepensionfund.org.uk):

- Funding Strategy Statement
- Statement of Investment Principles
- Communications Strategy
- Governance Compliance Statement
- Governance Policy Statement
- Administration Strategy
- Cessation Policy

ACTION PLAN FOR THE FUND 2011-14

The Action Plan for the period 2011-14, which seeks to drive forward on the business objectives laid out above is given in the following pages.

WILTSHIRE PENSION FUND ACTION PLAN 2011-14

These objectives are reflected in the following key principles that are planned for the next three years:

Activity	Deadline	Links to Objective No.	Purpose	
<u>GOVERNANCE / STAFFING</u>				
1	Review structure of the Pension Fund team	Autumn 2011	6	A restructure / review of the Pension team is pending the outcome of the Government's decision on which recommendations of the Hutton review to implement. It is essential to have a team capable and correctly resourced to ensure these changes can be effectively implemented.
2	Respond to LGPS scheme change consultation	Autumn 2011 onwards	1	To ensure the Fund is involved in trying to shape the future of the scheme and its implementation.
3	Set up a formal process for monitoring the performance of the Fund's advisors	October 2011	1	To ensure the Fund meets best practice and complies with the Myners Principle for Performance monitoring.
4	Set up a formal process for monitoring the performance of the Committee	March 2012	1	To ensure the Fund meets best practice and complies with the Myners Principle for Performance monitoring.
5	Refresh key policy documents (eg. the 2 Governance Policy documents, Communications Strategy, etc)	Sept 2012	1	To seek Member approval and formally publish.

6	Members' training: a) Specific issues b) Review Training Plan c) Deliver Training Plan	As required, Nov 2012 Nov 2012	1 & 2	To provide training on specific issues ahead of relevant decisions by the Committee. To provide training for all Members of the Committee in line with the CIPFA Knowledge & Skills Framework.
7	Members' Handbook	May 2013	1	To refresh the Members' Handbook for the benefit of newly elected Members of the Committee.
8	Refresh the Contracts Register and update the Risk Register for the Fund	On-going	1	To ensure that best practice business processes are in place for the Fund.
9	Continue to develop a high performing team	On-going	6	To have a highly motivated staff team with the necessary professional, managerial and customer skills to provide excellent service, implement the forthcoming changes and have the technical detail to meet the ever increasing complexities of the scheme.
<u>FUNDING & ACTUARIAL MATTERS</u>				
10	Re-tender / drawdown from framework Actuarial Contract	September 2011	1 & 3	To ensure that there is an up-to-date and competitive actuarial contract in place.
11	Review / model impact on the Fund in regards maturity profiles resulting from the changes announced by the Government to the LGPS	December 2011	1 & 3	This depends on when these changes are announced. Depending on the size of the changes consideration might be given as to whether an interim Valuation should be undertaken.

12	Full Actuarial Valuation (Actuary)	May - October 2013	1 & 3	To identify the Funding Level at a whole Fund and Employer level and the associated Employer Contribution Rates.
13	Discuss & agree Actuarial Valuation results with Committee & employers	October - December 2013	1 & 3	To have the Actuarial Valuation formally signed off by 31 December 2013 (three months ahead of statutory deadline).
14	Refresh Funding Strategy Statement	January 2014	1	To have an up-to-date Funding Strategy Statement, which is a statutory document required to set-out the longer-term view of how liabilities will be funded and the agreed level of compromise between stability and affordability of employer contributions.

INVESTMENTS & ACCOUNTING

15	Procurement & Implementation of new investment mandates resulting from Investment Review	September 2011 onwards	2	A number of new mandates could be required from the investment review highlighted above.
16	Implement Bi-annual Management Accounts & Performance Reporting	September 2011	1 & 3	To improve management information to assist with budget monitoring, performance monitoring and increase transparency.
17	Re-tender / drawdown from framework Investment Consultancy contract	September 2011	1 & 8	To ensure that there is an up-to-date and competitive investment consultancy contract in place.
18	Draft separate Financial Standards for the Pension Fund	October 2011	1 & 5	The Pension Fund currently uses the Wiltshire Council standards which are not always applicable.

19	Investment Strategy Review	December 2011 & On-going	2	To ensure that the Fund's investment strategy is optimal. The Fund is currently undertaking a high level investment review with outcomes agreed by the end of 2011. A further review might be required depending on the outcome from the Hutton Review. Existing managers' underperformance or new developments in the markets may trigger a review of part or all of the Fund's investments.
20	Review / Retender Custody Contract	December 2011	1 & 5	To ensure that the Fund achieves best value for money in relation to its investment custody arrangements.
21	Develop 3 year budgets & performance targets	March 2012	1 & 5	To assist long term resource planning and set performance targets.
22	Review, retendering and implementation of the Fund's ESG arrangements	July 2012 to March 2013	1 & 2	To ensure that the Fund is complying with best practice and is achieving best value in relation to environmental, social and governance issues.
<u>PENSIONS BENEFITS ADMINISTRATION</u>				
23	Implementation of Task Management and Document Imaging along with central manuals for all processes & procedures	July 2011 - March 2012	1 & 3	These systems will allow consistent work flow management and monitoring, together with management information and performance indicators.
24	Implementation of electronic data transfers for all the large employers within the Fund	July 2011 to March 2012	1 & 3	To provide for the more efficient, reliable and secure transfer of data between employers' HR and Payroll functions and the Wiltshire Pension Fund Team.

25	Ensure the Fund will meet all requirements from the changes to Record Keeping	March 2012	1, 3, 5	To ensure the Fund has liaised with its employers, checked and cleansed its own data and have processes in place to ensure compliance, while developing the Fund's own data cleansing practices using mortality screening against governmental databases.
26	Implementation of process to enable the provision of tax liability information	April 2012	1 & 3	To provide the correct information to members for the changes in the tax relief allowances and ensure the systems are able to accommodate any additional procedures from an administration perspective.
27	Implement post Hutton changes to the LGPS scheme	April 2013 onwards	1 & 3	To ensure the Fund is able to meet the administration requirements of the changed LGPS schemes and have the relevant processes in place.

COMMUNICATIONS / CUSTOMER LIAISON

28	Gather external customers feedback on pension services & effectiveness	July 2011 onwards	3	To measure the quality of the pension services being provided.
29	Run Annual Pensioner Meetings and other more regular roadshows/seminars	September 2011 onwards	3	To improve communications with the Fund's members.
30	Adopt a strategy for the communication of the post Hutton changes to the LGPS	September 2011 onwards	1 & 3	To ensure the changes to the LGPS are correctly communicated and managed with the aim highlighting the benefits of the scheme and preventing members taking uninformed decisions.
31	Ensure Fund's compliance and employers are aware of auto-enrolment requirements	March 2012	1 & 3	To ensure all employers are aware of their requirements and are able to hold and provide the pension fund with the correct data to meet the requirements of auto-enrolment.

32	Pension Fund Website	On-going	1 & 3	To ensure that the Fund's website is up-to-date, in line with best practice and serving the needs of our customers as well as possible.
33	Develop links with Scheme Employers, including regular monitoring against the performance requirements within the Pension Administration Strategy	On-going	4	To set-up more regular meetings to discuss performance and issues with the employer bodies for the benefit of both parties.

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

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