Wiltshire Council
Where everybody matters

AGENDA

Meeting:	**WILTSHIRE PENSION FUND COMMITTEE**
Place:	Committee Room 3, County Hall, Trowbridge
Date:	Thursday 13 May 2010
Time:	**10.30 am**

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

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

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

Briefing arrangements:	**Date**	**Time**	**Place**
	Thursday 13 May 2010	9.30am	Office of the Chief Finance Officer

Membership:

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

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

Swindon Borough Council Members
Cllr Des Moffatt
Cllr Peter Stoddart

Substitute Members
Cllr Mark Edwards

Employer Body Representatives
Ms Irlene Cooper
Mr Tim Jackson

PART 1

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

1. **Membership Changes**

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

3. **Apologies for Absence**

4. **Minutes**

   To confirm the minutes of the meeting held on 25 February 2010 (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**

   The Council welcomes contributions from members of the public.

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

   Members of the public wishing to ask a question should give written notice (including details of any question) to the officer named above by **12.00noon on Tuesday 11 May 2010**.

8. **Interim Audit Report**

   A report prepared by the Fund's Auditors KPMG is circulated and Gemma Broom (KPMG) will be at the meeting to present and answer questions. (10.35)

9. **Wiltshire Pension Fund Risk Register**

An update from the Chief Finance Officer on the Wiltshire Pension Fund Risk Register is circulated for Members' consideration. (10.45)

10. **Statement of Investment Principles**

To consider and approve the updated Statement of Investment Principles which is circulated. (10.55)

11. **Administration Strategy Update**

An interim update for Members regarding the implementation of the Wiltshire Pension Fund's Administration Strategy is circulated. (11.05)

12. **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on Wednesday 14 July 2010. (11.15)

13. **Urgent Items**

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

14. **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 15 – 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.

PART II

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

15. **Implementation of a Stabilisation Policy for the 2010 Valuation**

To consider and approve a report from officers and a presentation from the Actuary recommending the Wiltshire Pension Fund adopts a Stabilisation Policy for secure long term employers ahead of the 2010 Valuation. (11.20)

16. **Quarterly Progress Report**

A confidential report on the investment activity and performance of the Fund for the year to 31 March 2010 is attached for Members' consideration. (12.05)

17. **Review of Investment Manager**

A confidential report by the Chief Finance Officer is circulated updating Members in relation to the position of an individual investment manager. (12.30)

BUFFET LUNCH

13.00 – 13.30)

18. **Capital International - Review of 2009/10 & Plans for the Future**

A confidential annual report from Capital International is attached and Members are asked to consider this along with the verbal report at the meeting. (13.30)

WILTSHIRE PENSION FUND COMMITTEE

MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 25 FEBRUARY 2010 AT COMMITTEE ROOM 3, COUNTY HALL, TROWBRIDGE.

Present:

Cllr Tony Deane (Chairman), Ms Irlene Cooper, Cllr Tony Deane (Chair), Cllr Charles Howard (Vice Chairman), Mr Tim Jackson, Cllr Des Moffatt, Cllr Jeff Osborn and Cllr Sheila Parker.

Cllr Fleur de Rhe-Philipe and Cllr John Smale also attended the meeting.

Also Present:

Mr Tony Gravier and Mr Mike Pankiewicz – Trade Union Representatives
Mr Paul Potter – Hymans Robertson
Mr Jim Edney – Independent Pensions Advisor
Ms Gemma Broom – KPMG
Mr Ken Fraser – Edinburgh Partners
Mr Tim Garratt and Mr Nigel Morecroft – Baillie Gifford

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1. **Membership Changes**

   There were no membership changes.

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

   Cllr Fleur de Rhe-Philipe and Cllr John Smale attended the meeting.

3. **Apologies for Absence**

   Apologies for absence were received from Cllr David Jenkins and Cllr Peter Stoddart.

4. **Minutes**

   Resolved:

   To confirm and sign the minutes of the meeting held on 19 November 2009.

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

The Chairman,

(1) welcomed Irlene Cooper, the new Committee member who was representing the education scheduled bodies. He also welcomed Jim Edney, the new Independent Pension Fund Adviser and Martin Summers, the new Pensions Manager, all of whom were attending a meeting of this Committee for the first time. On behalf of the Committee, he formally recorded his thanks for all the work and advice given by Keith Neale, the previous Independent Pension Fund Advisor.

(2) reported that this would be the final meeting attended by David Broome, Head of Pensions, who would shortly be leaving the Authority. On behalf of the Committee, he and Cllr Fleur de Rhe Philipe thanked David for his outstanding contribution and guidance to the work of this Committee over a number of years and wished him every success in his new work. These sentiments were endorsed by all Members of the Committee. The Chairman then congratulated David Anthony on his appointment as Head of Pensions with effect from 1 March 2010.

(3) reported that the NAPF Local Government Pension Fund Conference was due to be held form 18 to 19 May 2010 at The Belfry, Warwickshire and that any Members interested in attending should contact David Anthony.

(4) announced that Cllr Charles Howard, Cllr Sheila Parker, Tony Gravier and himself had successfully completed the LGE Local Government Pension Fund Trustee’s Training and he had certificates which he would present to the successful candidates after the meeting. He stressed the importance of this training and expected other Members of the Committee to undertake this.

6. **Declarations of Interest**

Mr Tim Jackson declared a personal interest as he was representing an admitted body at this meeting where a proposed Cessation Policy would be discussed.

7. **Public Participation**

There were no members of the public present.

8. **KPMG Pension Fund Benchmarking**

Consideration was given to a report by the Fund’s Auditors, KPMG. Ms Gemma Broom (KPMG) explained that the purpose of the report was to provide an overview of how the Wiltshire Pension Fund Scheme compared with its peer group and covered the following areas:-

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

In most areas the Wiltshire Pension Fund Scheme compared favourably with its peer groups but the following points were raised where possibly Wiltshire might wish to investigate if changes were desired.

Scheme Governance It was noted that many schemes within the peer group had a separate administration committee which monitored administration but the Wiltshire Fund did not. Similarly, the Wiltshire Fund did not have a separate audit committee to monitor the performance of its auditors. It was noted that the decision to appoint and review the Fund's auditors rested with the Audit Commission.

Dealing with Members: Defined Benefit The Wiltshire Fund was on the whole in line with the peer group. However, the membership data of the Fund was reconciled annually whereas the schemes within the peer group were reconciled more frequently.

Investments: Segregated Funds The Wiltshire Fund was well ahead with its monitoring arrangements and very near to best practice. Some schemes within the peer group were undertaking more detailed reviews of AAF (Audit & Assurance Faculty) 01/06 or SAS (Statement of Auditing Standards) reports on internal controls including visiting the investment managers and discussing the systems, controls and exceptions in relation to their scheme.

Investments: Pooled Investment Vehicles The Wiltshire Fund was very near to best practice although it was noted that the set up of the pooled funds in terms of whether they had an independent manager, administrator and custodian was reviewed informally. Some schemes within the peer group were now reviewing this on a formal basis.

Scheme Accounting The Wiltshire Fund was ahead of the peer group or achieving best practice with the exception of consistency between the membership movements and the accounts which was not formally reviewed. With the completion of a detailed membership reconciliation, this process could be completed.

After some discussion,

Resolved:

(1) To thank KPMG for their report.

(2) To request that performance be monitored and that a report be prepared for the September meeting of this Committee to include proposals to improve those areas which have underscored.

9. **Pension Fund Risk Register**

The Committee received a report by the Chief Finance Officer which set out an update in relation to changes to the Fund's Risk Register.

It was noted that the following three items had changed since the last report to this Committee on 19 November 2009:-

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

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

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

Resolved:

To receive and note the update of the Risk Register.

10. **Cessation Policy**

The Committee considered a report by the Chief Finance Officer which outlined a proposed Cessation Policy to deal with the issues that arose when employers left the Fund.

Resolved:

To approve the Wiltshire Pension Fund Cessation Policy, to take immediate effect.

11. **Treasury Management Strategy**

Consideration was given to a report by the Chief Finance Officer, which outlined a proposed Treasury Management Strategy for the Fund.

Resolved:

To approve the proposed Treasury Management Strategy.

12. **Date of Next Meeting**

Resolved:

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

13. **Urgent items**

There were no items of urgent business.

14. **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 Nos. 15 - 21 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

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

The Committee considered the Annual Report by Edinburgh Partners which outlined action taken during the past year and policy for the next period.

Mr Ken Fraser answered questions concerning the report.

Resolved:

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

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

The Committee considered the Annual Report by Baillie Gifford which outlined action taken during the past year and policy for the next period.

Mr Tim Garratt and Mr Nigel Morecroft answered questions concerning the report.

Resolved:

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

17. **Quarterly Progress Report**

Consideration was given to a confidential report by the Chief Finance Officer on investment activity and performance of the Fund for the period to 31 December 2009 together with a review of investment managers' performance for the same period prepared by Hymans Robertson.

Resolved:

To note the contents of the reports.

18. **Review of Investment Managers**

Consideration was given to a report by the Chief Finance Officer which updated Members in relation to the position of individual investment managers.

Resolved:

a) To approve the termination of the Baillie Gifford UK Mandate.

b) To approve the additional allocation of 9.5% of the Fund to the Legal & General UK equity passive pooled fund.

c) To approve the additional allocation of 3% of the Fund to the Edinburgh Partners Global Opportunities Fund.

d) To not approve the potential transfer of the Edinburgh Partners Global Opportunities Fund from a 'pooled' basis into a segregated account.

e) To continue with the policy of not rebalancing the Record Currency Alpha Fund to its strategic allocation until a further review and report back to this Committee in three months' time.

f) **To approve the use of the hedged Total Fund Consolidated Managers' benchmark for the monitoring of the overall Fund's performance in future reports.**

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

On considering a confidential report by the Chief Finance Officer,

Resolved:

To approve the Pension Fund Administration Budget for 2010-11, as set out in Appendix 1 to the report, totalling £6.394million.

20. **Appointment of New AVC Provider**

Consideration was given to a confidential report by the Chief Finance Officer which proposed the appointment of a new AVC provider.

Resolved:

a) **To approve the appointment of Prudential as the AVC provider for Wiltshire Pension Fund.**

b) **To approve the closure of Clerical Medical to new business from members of the Wiltshire Pension Fund.**

c) **To note the selection of investment funds recommended by Hymans Robertson as those that will be made available by Prudential to Wiltshire Pension Fund members.**

21. **Appointment of Independent Pensions Adviser**

The Committee considered a confidential report by the Chief Finance Officer regarding the appointment of an Independent Pensions Adviser.

Resolved:

To note the appointment of Mr Jim Edney, with Mr Bob Summers as Deputy, as the Independent Pensions Adviser to the Wiltshire Pension Fund, under the CIPFA Business Services umbrella.

(Duration of meeting: 10.30am – 1.10pm &
1.30pm – 2.40pm)

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

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

WILTSHIRE COUNTY COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
13 May 2010

INTERIM AUDIT REPORT

Purpose of the Report

1. The purpose of this report is to present the Interim Audit Report for the Wiltshire Pension Fund prepared by KPMG.

Background

2. The 2009-10 one is the second separate annual audit to be carried out on the Wiltshire Pension Fund since the requirement for separate audits of Local Government Pension Funds came into place. The audit is being carried out by Wiltshire Council's external auditor, KPMG.

3. KPMG completed their interim audit visit in March 2010 and the resulting report is attached. Mr Chris Wilson (Partner, KPMG) will be coming to the Committee meeting to present the report.

4. The Wiltshire Pension Fund Annual Report for 2009-10 will be presented to this Committee on 15 September 2010. Mr Wilson is also expected to present KPMG's final audit report ("Report to those charged with governance") to that meeting, as well as to the 30 September 2009 meeting of the Final Accounts & Audit Committee. KPMG's final audit opinion and certificate on the Wiltshire Pension Fund Annual Report will follow these meetings.

Key Considerations for the Committee

5. The attached interim report does not raise any areas of concern at this stage.

6. Members are asked to also consider what Mr Wilson says verbally at the meeting.

Proposals

7. The Committee is asked to note the attached Interim Audit Report and to receive the verbal presentation by Mr Chris Wilson of KPMG.

MARTIN DONOVAN
Chief Finance Officer

Report Author: David Anthony, Head of Pensions

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

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KPMG

GOVERNMENT

Audit Plan and Interim Audit Report 2009/10

Wiltshire Pension Fund

13 May 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

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The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, who is the engagement partner to the Authority, telephone 0118 964 2238, email christopher.wilson@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Summary

This document describes how we will deliver our financial statements audit work for Wiltshire Pension Fund and summarises our key findings from our work to date.

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Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice* (*the Code)* requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts.

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility	Risks, proposed work and output
Financial Statements and Annual Governance Statement	Key risks identified, which we will consider through our financial statements audit, are as follows: ● inherent risks associated with valuation of pension fund assets. Our work will encompass: ● reviewing the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication; ● a detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement; and ● specific work on the data migration process to gain assurance on the complete and accurate transfer of data from the previous systems to the new SAP system. ***The findings of this work support the audit opinion that we issue on your financial statements.***

The audit planning process and risk assessment is an on-going process and the assessment in this plan will be kept under review and updated if necessary.

Scope of this report

This report summarises details of our risk assessment and proposed work on the financial statement audit and the key findings arising from:

- our interim audit work at Wiltshire Pension Fund ('the Fund') in relation to the 2009/10 financial statements.

During April 2010 we completed our planning and control evaluation work. This covered our:

- review of the Fund's general control environment;
- testing of certain controls over the Fund's key financial systems;
- review of the Fund's accounts production process.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

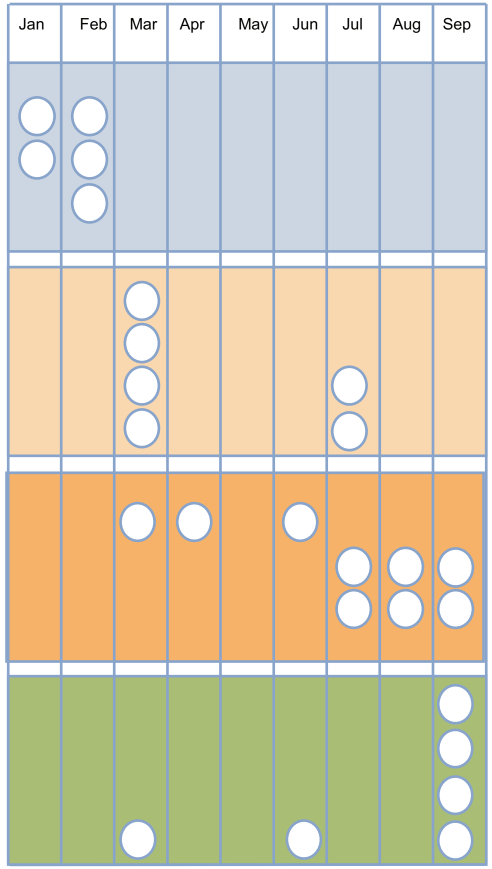
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:

1	**Planning**	• Perform risk assessment procedures and identify risks • Determine audit strategy • Determine planned audit approach
2	**Control Evaluation**	• Understand accounting and reporting activities • Evaluate design and implementation of selected controls • Test operating effectiveness of selected controls • Assess control risk and Risk of Significant Mis-statement
3	**Substantive procedures**	• Plan substantive procedures • Perform substantive procedures • Consider if audit evidence is sufficient and appropriate
4	**Finalisation**	• Perform completion procedures • Perform overall evaluation • Form an audit opinion • Audit Committee reporting



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Audit overview (continued)

We work with the pensions department to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the pensions department to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Pension Fund with a 'prepared by client' list which will include a detailed schedule of information we need to support the financial statements audit.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Pension Committee on these risk issues when we issue our ISA 260 report in September.

KEY audit risks	Audit areas affected	Impact on audit plan
Implementation of SAP system	• All areas of the financial statements	**Business Management Programme** • We will draw on KPMG's IT audit specialists to gain assurance on the accuracy of the migration of data from the previous financial system to the new SAP finance package. • We will perform detailed work over opening balances to gain assurance over the opening balance position of the Pension Fund.
Valuation of investment assets	• Investment assets	**Valuation of Investments** • We will use our FundRADAR service to assist with auditing the valuation of the investment portfolio held. FundRADAR is a service which enables us to use market data and modelling to compare our expected pricing to the pricing provided by the custodian.

Interim findings

We have not identified any control recommendations following our interim audit work. As part of our interim work we have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix four.

The table below however summarises the key risks identified this year for the financial statements audit. The remainder of this section provides further details on these risks as well as information on our audit approach, our audit team and our proposed work and timescales for our work on the financial statements audit.

Key risks identified	
IT control environment	**Implementation of SAP**
Controls over key financial systems	**Understanding key financial processes**
Specific risk areas	• **Implementation of SAP system** • **Valuation of investment assets**
Accounts production	**Preparation of Annual Report and financial statements**

IT control environment

Due to the status of the SAP implementation during our interim visit we are not able to conclude if the IT control environment is effective overall and will revisit this during our final audit in July.

Work completed

- The Fund relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.
- Wiltshire Council has implemented a new SAP system during the year and as part of the Council audit we will draw on KPMG's IT audit specialists to gain assurance on the accuracy of the migration of data to the new SAP finance package. As at the date of this report this work had not been finalised.

Key findings

- With the implementation of the new SAP system being ongoing during our interim visit we are unable to conclude on the effectiveness of the system in relation to the Pension Fund. We will look to review this during our final audit fieldwork in July.

Controls over key financial systems

The controls over the key financial system are generally sound.

We will complete additional substantive work in relation to the financial systems at year-end.

Work completed

- The Council's internal auditors have not completed any work in relation to the pension fund during the year and so we have updated our understanding of the Fund's key financial processes with the pensions department where these are relevant to our final accounts audit.
- We confirmed our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Key findings

- The controls tested over the key financial system are generally sound.
- We have not yet assessed some of the controls over investments, membership and some aspects of contributions and benefits. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

Specific risk areas

The Fund has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Work completed

- In the previous pages we identified the key risks affecting the Fund’s 2009/10 financial statements.
- Our audit strategy and plan remain flexible as risks and issues change throughout the year. There have been no changes to the risk previously communicated to date.

Key findings

- The key audit risk in relation to the SAP system implementation will be reviewed at out final audit in July as the information was not available during our interim visit.
- The key audit risk in relation to investment valuation will also be reviewed at our final audit as the 31 March 2010 asset valuations were not available when we completed our interim work.

Key audit risk	Issue	Progress
SAP implementation	The implementation of the SAP package will impact the preparation of the entire financial statements.	The SAP implementation and loading of opening balances was still in progress during our interim audit. We will revisit this during our final audit in July.
Valuation of investment assets	During difficult economic times the valuation of investments maybe affected by price deterioration and/or market illiquidity. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.	This will be reviewed as part of our final audit in July as the valuations were not available from the custodian during our interim visit.

Accounts production process

The Fund's overall process for the preparation of the financial statements is adequate.

The Authority has implemented some of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Work completed

- As part of our interim work we specifically reviewed the Fund's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.
- We also discussed your progress in preparing the Annual Report and financial statements for the year ended 31 March 2010.

Key findings

- We consider that the overall process for the preparation of your financial statements is adequate.
- The Fund has implemented some of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements in line with the timescales of the action plan where this has been possible. An update of these recommendations is detailed in Appendix four.

Independence Confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix six.

We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Appendix one: Audit Team

Our audit team is largely unchanged from last year. Contact details are shown on slide 1.

The audit team will be assisted by other specialist KPMG staff as necessary.

Chris Wilson

Engagement Lead

My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Pension Committee and the Chief Executive.

Gemma Broom

Senior Manager

I will provide strategic direction and co-ordination for the audit and will work closely with Chris and Gemma to ensure we add value. I will be the main contact for the Head of Pensions.

Gemma Jones

Audit Assistant Manager

I will be your day to day contact and will work closely with Gemma to deliver a co-ordinated and efficient audit.

Appendix two: Audit Timeline & Deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Pension Fund's officers prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	● Outline audit approach ● Identify areas of audit focus and planned procedures ● Confirm plan with Audit Committee	**April 2010**
Interim		
Interim report	● Details and resolution of control and process issues	**May 2010**
Year end audit		
Report to those charged with governance (ISA 260)	● Auditor's report on Wiltshire Council's financial statements ● Auditor's report on Wiltshire Council's value for money ● Auditor's report on Wiltshire Council's use of resources ● Detail the resolution of key audit issues ● Communication of adjusted and unadjusted audit differences ● Performance improvement recommendations identified during our audit	**September 2010**
Opinion on financial statements		**September 2010**

Appendix three – Key issues and recommendations

Following our interim audit visit and fieldwork completed to date we do not have any key issues and recommendations.

We have not identified any new issues or recommendations following our planning or interim fieldwork from those identified in the prior year. Our prior year recommendations and their status is detailed in Appendix four.

Priority rating for recommendation		
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
1		**None identified from our audit work completed to date.**	
2			
3			

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Appendix four – Follow-up of prior year recommendations

The Authority has implemented all of the recommendations in our *Interim Audit Report 2008/09*.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2008/09* and re-iterates any recommendations still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
4	3	1

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
1		The Fund uses the Authority's bank account and as a result the Authority can use the monies within the bank account. The Pension Fund cash is treated by the Authority as a temporary loan and the Fund receives interest at the Local Authority 7 Day Rate. The monies used by the Authority may however return greater than the Local Authority 7 Day Rate resulting in the Fund losing out on the best return available to it. There is currently no written agreement between the Authority and the Pension Fund in respect of this arrangement. We recommend that the arrangement is formalised in an agreement which demonstrates that the Fund receives full benefit from its investment.	Head of Pensions December 2009	The Fund has its own bank account which was put in place in April 2009. As a result the Fund does not use the Authority's bank account for cash flow purposes. A Treasury Management Strategy was approved by the Wiltshire Pension Committee on 25 February 2010 and a Treasury Management Service Level Agreement was signed between the Wiltshire Pension Fund and Wiltshire Council in April 2010.

Appendix four – Follow-up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2008/09*.

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
2	●	Pensionable pay data is not available from some of the employers so the contributions monitoring control in place can not operate as intended. We recommend that this data is made available to the pensions department. If the information cannot be made available the ratio of employee and employer contributions is reviewed to compensate for the missing data and any anomalies investigated.	Head of Pensions October 2009	Although the majority of employers now provide pensionable pay data, the ratio of employee and employer contributions has been used during the year as an approximation to review contribution levels.
3	●	Some Employees and Employers pension contributions from the admitted bodies had not been received into the County Fund bank account within 19 days following the applicable month end. These represent a breach of the 19 day rule. Management should remind the admitted bodies of their responsibilities to ensure payments are received by the required date. Management should issue reminders to the bodies and monitor late payments from these bodies.	Head of Pensions Ongoing	The date contributions are received from employers is monitored and those who pay late are either called or sent an email.

Appendix four – Follow-up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2008/09.*

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
4		The Pension Scheme Department could not provide accurate membership data that agreed to the Statement of Accounts. Inaccurate membership numbers make it harder for the Committee to ensure that contributions and benefits are being paid correctly and may impact on the future liability of the scheme. Membership numbers should be reconciled regularly. A listing of members to back up the totals should be maintained and regularly reviewed.	Head of Pensions Ongoing	Accurate membership data is difficult to maintain in AXISe as reports run on different days for the same date i.e. 31 March, provide differing results if any membership details have been processed in the corresponding period. Work is on-going to develop a more robust reconciliation process and a year-end position for reporting in the Statement of Accounts.

Appendix five: Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix six: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

The Audit Commission is committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
13 May 2010

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

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

Background

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

Key Considerations for the Committee / Risk Assessment / Financial Implications

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

4. Three items have changed since the last report to this Committee on 25 February 2010:

   a) Risk PEN002 ("Failure to collect and account for contributions from employers and employees on time") has improved from to Red to Green. The Fund has now received reports detailing the employees' and employers' contributions paid over by Wiltshire Council for 2009/10 and a reconciliation has been undertaken.

   b) Risk PEN011 ("Lack of expertise of Pension Fund Officers and Chief Finance Officer") has been amended. Previously this included Members of the Pension Fund Committee. With the launch of the CIPFA Local Government Pension Fund Skills Framework officers and Members training will come under greater scrutiny as the government will require the Fund to 'comply or explain' if knowledge and skills gaps have not been assessed and addressed through targeted training plans. Therefore, I have added another risk PEN017 ("Lack of expertise on the Pension Fund Committee") to focus specifically on Members requirements. A detailed report on the Framework and the implications on training requirements will be brought to the July meeting of this Committee.

   c) Risk PEN012 ("Over-reliance on key officers") has changed from Amber to Green. David Anthony replaced David Broome as Head of Pensions from 1 March 2010. A transition plan was implemented resulting in a relatively efficient and orderly handover of responsibilities. Meanwhile, Catherine Dix has been recruited to fill the vacant Fund Investment & Accounting Manager post and although has started on two days a week (as she works her notice) she will take up the post full time during May.

   d) Risk PEN015 ("Failure to collect payments from ceasing employers") and PEN016 ("Treasury Management") are new additions in April reflecting the approval of the

Cessation Policy and Treasury Management Policy at the last Committee meeting in February.

Environmental Impacts of the Proposals

5. There no known environmental impact of this report.

Proposals

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

MARTIN DONOVAN
Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

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

	NAME OF RISK	RISK CATEGORY	Scope of Risk: CAUSE OF RISK	Scope of Risk: IMPACT OF RISK	OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING: Impact	CURRENT RISK RATING: Likelihood	CURRENT RISK RATING: Risk Score	TARGET RISK RATING: Impact	TARGET RISK RATING: Likelihood	TARGET RISK RATING: Risk Score	INHERENT RISK RATING: Impact	INHERENT RISK RATING: Likelihood	INHERENT RISK RATING: Risk Score	CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of AXISe/ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	Martin Summers	David Anthony	2	2	4	2	2	4	2	2	4	Robust maintenance and update of AXISe/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	None	30 April 2010	4	→
PEN002	**Failure to collect and account for contributions from employers and employees on time**	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	Catherine Dix	David Anthony	3	1	3	2	1	2	2	1	2	Robust maintenance and update of AXISe/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	The Fund has now received a breakdown of contributions from Wiltshire Council (WC) for 2009-10.	30 April 2010	3	↓
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	David Anthony	4	1	4	4	1	4	4	1	4	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	None	30 April 2010	4	→
PEN004	**Inability to keep service going due to loss of main office, computer system or staff**	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	Andy Cunningham	David Anthony	4	2	8	4	1	4	4	1	4	Business Continuity Plan in place	Fire Proof Safe required for microfiches - this is being investigated.	30 April 2010	8	→
PEN005	**Loss of funds through fraud or misappropriation**	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	Catherine Dix	David Anthony	4	1	4	4	1	4	4	1	4	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	None	30 April 2010	4	→
PEN006	**Significant rises in employer contributions due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony / Andy Cunningham	David Anthony	4	3	12	3	2	6	3	2	6	Longevity and bond yields are really beyond the control of the Fund. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (eg. early retirements, augmented service, etc).	Quarterly monitoring of movements in liabilities is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates and the implementation of the Stabilisation Policy, if adopted would limit increases for secure employers	30 April 2010	12	→

	NAME OF RISK	RISK CATEGORY	Scope of Risk: CAUSE OF RISK	Scope of Risk: IMPACT OF RISK	OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING: Impact	CURRENT RISK RATING: Likelihood	CURRENT RISK RATING: Risk Score	TARGET RISK RATING: Impact	TARGET RISK RATING: Likelihood	TARGET RISK RATING: Risk Score	INHERENT RISK RATING: Impact	INHERENT RISK RATING: Likelihood	INHERENT RISK RATING: Risk Score	CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
PEN007	**Significant rises in employer contributions due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	Catherine Dix	David Anthony	3	4	12	3	2	6	3	2	6	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	Quarterly monitoring of movements in investment is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates. The implementation of the Stabilisation Policy, if adopted would limit increases for secure employers	30 April 2010	12	→
PEN008	**Failure to comply with LGPS and other regulations**	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	Martin Summers / Catherine Dix	David Anthony	2	2	4	2	1	2	2	1	2	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	A close eye is being kept on the AXISe system at present as it is some way behind some of the recent regulatory and actuarial changes, which is necessitating some manual intervention. The implementation of Alt Air to replace AXISe in the summer with improve this.	30 April 2010	4	→
PEN009	**Failure to hold personal data securely**	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data lost or compromised	Tim O'Connor	David Anthony	2	2	4	2	1	2	3	2	6	Compliance with Wiltshire Council's Data Protection & IT Policies.	It is intended to do a full data protection audit for the Fund shortly.	30 April 2010	4	→
PEN010	**Failure to keep pension records up-to-date and accurate**	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	Tim O'Connor	David Anthony	3	2	6	2	1	2	3	3	9	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (eg. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative, LEAN Review looking at all ways to collect and input "clean data".	We are always looking for new ways to improve the quality of the data that we collect and hold. This is a particular area for continuous development which is assisted with the implementation of the Admin Strategy in January 2010	30 April 2010	6	→
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	David Anthony	3	2	6	2	1	2	3	3	9	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc.	Officers need to ensure they meet the requirements outlined in the Knowledge & Skills Framework and are regular assessed against these areas as part of their appraisal process.	30 April 2010	6	↑

NAME OF RISK		RISK CATEGORY	Scope of Risk		OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESS-MENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL
			CAUSE OF RISK	IMPACT OF RISK			Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score					
PEN012	**Over-reliance on key officers**	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	David Anthony	2	2	4	2	1	2	2	3	6	Key people in the Section are seeking to transfer specialist knowledge to colleagues and recent structural changes are helping with this. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	David Anthony replaced David Broome as Head of Pensions from 1 March 2010. A transition plan was implemented resulting in a relatively efficient and orderly handover of responsibilities and knowledge.	30 April 2010	4	↓
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.	New Communications Manager & Andy Cunningham	David Anthony	2	2	4	2	1	2	2	3	6	The Fund has a dedicated Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	The Communications Manager Nikki Barnes left her post in March and a replacement is currently being recruited. Martin Summers (Pension Manager) is covering urgent work until a replacement starts.	30 April 2010	4	→
PEN014	**Failure to provide the service in accordance with sound equality principles**	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	David Anthony	2	1	2	2	1	2	2	2	4	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	None	30 April 2010	2	→
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	Andrew Cunningham	David Anthony	2	2	4	2	1	2	2	2	4	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	All new admitted bodies now require a guarantor to join the Fund.	30 April 2010	4	→
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	Catherine Dix	David Anthony	2	2	4	2	2	4	2	2	4	The Pension Fund approved a Treasury Management Strategy in February 2010 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £5m.	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.	30 April 2010	4	→
PEN017	**Lack of expertise on Pension Fund Committee**	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	David Anthony	3	2	6	2	1	2	3	3	9	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independant advisors too.	Following the recent launch of the CIPFA Local Government Pension Fund Knowledge & Skills Framework there is a requirement for members to be regularly assessed to ensure to identify knowledge gaps and ensure training is provided to address these	30 April 2010	6	↑

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
13 May 2010

STATEMENT OF INVESTMENT PRINCIPLES

Purpose of the Report

1. This report provides Members with an updated Statement of Investment Principles for the Wiltshire Pension Fund following the recent changes to the Fund's investment strategy.

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 (SIP). The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

The 2010 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 the revisions to the Investment Strategy agreed since the last version a year ago.

4. There have been two key changes since the publication of the previous SIP.

5. The committee's decided to terminate the Baillie Gifford UK mandate representing 12.5% of the Fund. The majority of this allocation (9.5%) will be given to Legal & General to manage within their UK passive equity mandate with the remaining 3% passed to Edinburgh Partners as addition to their Global Opportunities Fund mandate.

6. This transition took place on 4 May 2010. This decision was taken in line with the Fund's long term Investment Strategy aspirations:

    - 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 now a requirement to report the Fund's compliance in line with the 6 revised Myners principles. 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. Therefore, this section of the SIP has been substantially changed to reflect the new requirements. The Fund is fully compliant with three principles and broadly meet the criteria of the other three although the following areas will need to be developed in the future to achieve full compliance:

   - *1. Effective Decision Making* – requires a continuous reappraisal of the adequacy of the Committee's resources and an acknowledgement that Members training and the implementation of the CIPFA's Knowledge and Skills Framework is a key issue to be developed over the coming months.

   - *4. Performance Assessment* – requires the implementation of a formal assessment of its advisers to ensure the cost, quality and consistency of the advice is monitored.

   - *5. Responsible Ownership* – requires the Committee to play a more active role in the Fund's voting activities to ensure its acting as an "active" shareholder. This will be developed through the annual presentation by PIRC to this Committee.

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 2010 Statement of Investment Principles.

MARTIN DONOVAN
Chief Finance Officer

Report Author: David Anthony, Head of Pensions

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 in 2010. 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.

Martin Donovan
Chief Finance Officer
May 2010

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 Fund, for the present, chooses not to invest in private equity, venture capital or commodities.

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, 20% in bonds, 13% in property and 2% in Currency. 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 £90 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.

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 2007 showed that Fund liabilities totalled £1,335 million, whilst assets stood at £1,131 million. The Fund therefore had a deficit of assets of £204 million, or expressed another way, had a solvency level of 85%. This compared with a solvency position at 31 March 2004 of 75%. This increase of 10% now places the Wiltshire Pension Fund just above the average of 82.5% among local authorities in terms of its solvency level.

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 unlikely to be a problem for many 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.

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. Clearly, the proof (or not) will be seen in the coming years.

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.

The resulting asset allocation is shown below:

ASSET ALLOCATION AS AT MAY 2010	
Equities:	
Long-Only:	
UK	15.5%
Overseas (Global)	37.0%
	52.5%
Bonds	17.5%
Property	13.0%
Alternatives:	
Income Biased (long-only equities & bonds)	10.0%
Long-Short Equities - Global	5.0%
Currency (Active)	2.0%
	17.0%
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, which is expected with effect from May 2010:

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	14.5%
Passive Gilts (UK)	2.5%
Passive Index-Linked Bonds (UK)	2.5%
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	
Active Currency Fund	2.0%
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 although given the scale of recent changes time has been given to allow the new arrangements to work. The next formal review will take place following the 2010 triennial valuation.

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 on the whole complies 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 outlines the major milestones between 2008-2011 and 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 Members training plan was also adopted by the Committee in November 2009 which runs for a 12 month period 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.

However, for full compliance the Committee will need to adopt the recently published 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.

In order to achieve the framework standards a self-assessment audit will be developed to identify the current knowledge and skill gaps which will feed into Members and officers training plans which the Chief Finance Officer is responsible for ensuring is undertaken and monitored.

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 2007 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 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 largely 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 will also be presenting annually to the Committee which will assist 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.

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.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
13 May 2010

ADMINISTRATION STRATEGY UPDATE

Purpose of the Report

1. The purpose of this report is to provide Members' with an interim update regarding the implementation of the Wiltshire Pension Fund's Administration Strategy. A more detailed report will be presented to this committee in September when the strategy has been in operation for 9 months.

Background

2. Under the Local Government Pension Scheme (Administration) Regulations 2008, which came into force on 1 April 2008, each Local Government Pension Scheme (LGPS) Fund in England and Wales was empowered to produce and implement a Pension Administration Strategy, with an accompanying Service Level Agreement, which would apply to all employers in its Fund.

3. Wiltshire Pension Fund (WPF) formally implemented such a policy on 1 January 2010 following consultation with employers and this committee.

4. WPF has been collecting and analysing benefit administration performance related data, measuring both employer and Fund performance, since June 2009.

5. The final version of administration strategy can be found on the WPF website

Considerations for the Committee

6. As the purpose of this report is to provide an interim update to this Committee, the following paragraphs provide a high level overview of Fund and employer performance against the service level agreement targets set out in the administration strategy

Wiltshire Pension Fund administration performance

7. WPF set itself targets for all key, high volume administration data tasks; most of which are to complete administrative work within 5 or 10 working days as appropriate to the task. All of these targets were accepted during the consultation process by employers and other parties.

8. WPF regularly self assesses against the 'timeliness' targets for high volume work by analysing against performance reporting, while internal and external Audit reports, indirectly, provide assessment against other areas covered in the Administration Strategy; such as our level of accuracy and our record keeping.

9. Since June 2009, WPF has on average, consistently met all the timeliness targets set. The exception to which was for a month period (November 2009) where higher than normal volumes of incoming work relating to schools were experienced.

Employer administration performance

10. WPF set all employer targets, following consultation with all employers prior to the formal implementation of the administration strategy. Most key administration targets require employers to submit data within 25 working days from the date of the event's occurrence (e.g. the member start date, the date of a change of details or the member leaving the Scheme).

11. Nearly all employers regularly meet the finance targets related to sending payments into the Fund. The levels of performance against the key benefits administration targets of data submission are more variable amongst employers.

12. The largest two employers in the Fund, Wiltshire Council and Swindon Borough Council, have both experienced complications in recent years regarding the submission of accurate and prompt data to the Fund. However, within the last year, both councils have moved from a submission of time-consuming and error prone manual methods to automatic reporting from their payroll systems; to improve their performance against the timeliness and accuracy targets.

13. Following the implementation of SAP and the move to One Council, WPF had experienced teething troubles in receiving the required pension data from Wiltshire Council leading to the main high volume targets not being met (e.g. new starters, leavers and change of details).

14. Since the turn of the year, the situation has improved significantly, and Wiltshire Council's overall administration performance now appears to be satisfactory with the potential to improve further following the move to a single payroll system in SAP.

15. Swindon Borough Council administrative performance has improved since analysis began last year, and further improvement are anticipated to regularly meet the targets set.

16. Several other employers in the Fund are not currently meeting the targets set but for some of these this is due to historical failures (for example, following changes in key personnel in the past) and although in terms of membership numbers this is not statistically significant, officers continue to work with them to address these issues.

Improving performance

17. WPF work closely with employers, to varying degrees as relevant for their size, to answer their queries, inform them of their responsibilities as outlined in the administration strategy and to work with them to improve procedures for the smooth flow and submission of clean data.

18. Where an employer is failing to meet the targets set, the Employer Relationship Manager aims to meet with the employer to address the issues. Following such a meeting, should the issues not be resolved, the Administration Strategy details the following steps to be taken.

19. In any event, the Employer Relationship Manager aims to meet with the largest employers on a quarterly basis, other large employers twice yearly and all others once a year.

Environmental Impact of the Proposal

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

Financial Considerations & Risk Assessment

17. There are no direct financial implications involved with the success of this Strategy. However, in the long term the success of the Strategy's targets being met alongside the improvements made through WPF's 'LEAN' review will lead to a more efficient benefits administration service with the ability to redirect resources for the benefit of scheme members while mitigating the risks associated with PEN010 highlighted on the risk register elsewhere on this agenda.

Reasons for Proposals

18. It's important to monitor the Administration strategy as it plays an significant role in ensuring the efficient day to day operation of the Fund and the subsequently the service provided to scheme members.

Proposals

19. The Committee is asked to note this interim progress report of the Wiltshire Pension Fund Administration Strategy.

MARTIN DONOVAN
Chief Finance Officer

Report Author: Andy Cunningham, Employer Relationship Manager.

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

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