Wiltshire Council
Where everybody matters

AGENDA

Meeting:	Wiltshire Pension Fund Committee
Place:	Committee Room III - County Hall, Trowbridge
Date:	Tuesday 1 March 2011
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Liam Paul, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718376 or email liam.paul@wiltshire.gov.uk

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

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

Briefing arrangements:	**Date**	**Time**	**Place**
	01.03.2011	9.30am	Committee Room III

Membership:

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

Substitute Members
Cllr David Jenkins
Cllr Bill Moss
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
Mr Tim Jackson

PART I

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 of the Previous meeting** *(Pages 1 - 6)*

   To confirm the minutes of the meeting held on 02 December 2011 *(copy attached)*.

5. **Chairman's announcements**

6. **Declarations of Interest**

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

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

   The Council welcomes contributions from members of the public.

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

   Questions
   To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Director of Resources) no later than 5pm on (4 clear working days, e.g. Wednesday of week before for a Wednesday meeting). Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

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

8. **Pension Fund Benchmarking Update** *(Pages 7 - 14)*

A report outlining the Fund's participation in the CIPFA Benchmarking club and the development of performance monitoring for the Fund.

9. **Pension Fund Risk Register** *(Pages 15 - 22)*

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

10. **Funding Strategy Statement** *(Pages 23 - 50)*

A report prepared by the Chief Finance Officer presenting an updated Funding Strategy Statement for Members' approval.

11. **Treasury Management Strategy** *(Pages 51 - 60)*

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

12. **Date of Next Meeting**

Members are asked to note that the next regular meeting of this Committee will be held on Thursday 12 May 2011.

13. **Urgent Items**

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

14. **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 14 – 17 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

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

15. **Valuation Update** *(Pages 61 - 64)*

    A report prepared by the Chief Finance Officer updating Members' on the agreed final employers contribution rates arising from the 2010 valuation.

16. **Pension Fund Administration Budget 2010-11 (Pages 65 - 70)**

    A confidential report by the Chief Finance Officer is circulated proposing an administration budget for the Fund for 2011-12.

17. **Quarterly Progress Report (Pages 71 - 74)**

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

18. **Review of Capital International and ING Investment Managers (Pages 75 - 102)**

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

19. **Capital International - Review of 2010 & 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.

20. **ING - Review of 2010 & Plans for the Future**

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

Wiltshire Council
Where everybody matters

WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 2 DECEMBER 2010 AT COMMITTEE ROOM III - COUNTY HALL, TROWBRIDGE.

Present:

Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman), Mr Tim Jackson, Cllr Jeff Osborn, Cllr Mark Packard and Cllr Sheila Parker

Also Present:

Cllr Fleur de Rhe-Philipe
Jim Edney, Independent Pensions Advisor
William Marshall, Hymans-Robertson representative
Bob Summers, CIPFA representative
Mike Pankiewicz, Wiltshire Unison representative

81. **Membership Changes**

The Committee noted the following membership changes:

Cllr Mark Packard to become a full member of the Committee
Cllr David Jenkins to become a reserve member of the Committee
Lynda Croft will replace Irlene Cooper as an Employer Body Representative

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

The Chair introduced the following non-members of the Committee newly in attendance:

Michael Hudson, Interim Chief Finance Officer,
William Marshall, representing Hymans-Robertson in the absence of Paul Potter, and
Bob Summers, representing the Chartered Institute of Public Finance and Accountancy (CIPFA)

83. **Apologies for Absence**

Apologies were received from Cllrs Des Moffatt and Peter Stoddart of Swindon Borough Council, and Lynda Croft.

84. **Minutes of previous Meeting**

The minutes of the previous meeting were presented and it was,

Resolved:

To approve and sign the minutes as a correct record.

85. **Chairman's Announcements**

There were none that had not been covered in items 1-3.

86. **Declarations of Interest**

There were no Declarations of Interest.

87. **Public Participation**

The Committee noted the rules on public participation. There were no members of the public present.

88. **KPMG Benchmarking Update**

The Head of Pensions introduced the KPMG benchmarking report and highlighted and explained key points. Following discussion by the Committee it was,

Resolved:

a) To note the report and actions being taken to improve the performance of the Fund.

b) That the Head of Pensions should provide a KPMG benchmarking progress report at the next Wiltshire Pension Fund Committee meeting.

89. **CIPFA Business Activities Update**

The Head of Pensions introduced Bob Summers, Chair of the CIPFA Pensions Panel, who presented a business activities update.

This included:

- progress and anticipated outcomes of Lord Hutton's pensions review,
- CIPFA membership and networks,
- collaborative opportunities within pension funds, and
- public sector pension rights and regulations.

The Committee discussed the content of the presentation and it was,

Resolved:

To note the key messages presented.

90. **Independent Public Services Pension Commission Call for Evidence**

The Head of Pensions presented a report outlining the general scope and provisions of the forthcoming review by the Independent Public Service Pensions Commission, led by Lord Hutton of Furness. Recommended responses to consultation questions were discussed and it was,

Resolved:

a) **To note the request for evidence as part of the Independent Public Service Pensions Commission review.**

b) **To approve the responses recommended by the Head of Pensions, subject to the following amendment:**

Question 19:

This review should also take account that currently within the Local Government Pension Scheme there are a number of non-public sector employers who are admitted bodies.

They have certain legal responsibilities imposed on them by the scheme but don't benefit from the same employer covenants as public sector bodies. Another important issue is that in many cases employees within admitted bodies have a choice of pension schemes and unfavourable changes to in the LGPS may see these members leave, increasing the maturity profile of the membership for these employers.

And submit responses to the IPSPC by 12 December 2010.

91. **Members Training Plan**

The Head of Pensions presented the Members' Training Plan and briefed members on its purpose, history and outlook. Following discussion by the Committee, it was,

Resolved:

a) **That the Members' Training Plan be approved**

b) **That members' training attendance and participation be logged and published in future**

92. **<u>Wiltshire Pension Fund Risk Register</u>**

The Head of Pensions introduced the Wiltshire Pension Fund Risk Register, providing updates where the classification of risks had changed since the last meeting, and it was,

<u>Resolved:</u>

To note the update of the Risk Register.

93. **<u>Date of Next Meeting</u>**

The next meeting of the Wiltshire Pension Fund Committee was confirmed to be held on Tuesday 1 March 2011.

94. **<u>Urgent Items</u>**

There were none.

95. **<u>Exclusion of the Public</u>**

It was,

<u>Resolved:</u>

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. 96, 97 and 98 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 1 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.

96. **<u>Valuation Update</u>**

The Head of Pensions presented a confidential report on the 2010 Actuarial Valuation of the Wiltshire Pension Fund. After discussion by the Committee, it was,

<u>Resolved:</u>

To note the on-going discussion being held with employers and that a final position will be presented to the March Committee meeting.

97. **<u>Investments Quarterly Progress Report</u>**

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

Resolved:

a) **To note the Quarterly Investment Report**

b) **To approve the continued use of the un-hedged benchmark for reporting total fund performance**

c) **That a report on the reasons for the Fund's peer group ranking and to outline the opportunities for improvement be prepared and submitted by Hymans-Robertson prior to 25 December 2010.**

98. **ING - Review of 2010 & Plans for the Future**

The ING representative expected was unable to attend due to adverse weather conditions and as such it was,

Resolved:

To defer this item until the next meeting of the Wiltshire Pension Fund Committee, to be held on 1 March 2011.

(Duration of meeting: 10.30 am - 1.30 pm)

The Officer who has produced these minutes is Chris Marsh, of Democratic & Members' Services, direct line 01225 713058, e-mail chris.marsh@wiltshire.gov.uk

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

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

PENSION FUND BENCHMARKING UPDATE

Purpose of the Report

1. This report updates the Committee on the CIPFA Benchmarking club results that the Wiltshire Pension Fund (WPF) joined last summer and reviews the activities undertaken to improve performance in relation to the KPMG Pension Schemes Financial Control Peer Group Comparison report outlined at the previous meeting.

Introduction & Background

2. The WPF joined the CIPFA benchmarking club in August 2010 with the intention to gain a better understanding of how WPF's service compares to those of its peers.

3. The club compares the Fund against the other 61 LGPS authorities within the club along with a comparator survey where the Fund is able to choose the most relevant peers to be measured against. The comparator report consists of 17 other Funds of a similar size to the WPF.

4. At the last meeting a report was produced looking at the areas that needed to improve to ensure a higher score in the next KPMG Pension Schemes Financial Control Peer Group Comparison report. The specific actions being implemented are explained below.

Main Considerations for the Committee

CIPFA Benchmarking Club

5. The results of the 2010 survey are shown in the Appendix. This covers the financial year 2009/10. As this is the first year no time series analysis is available for WPF. It's important to remember this survey merely review costs and processes but doesn't test or have a measure for 'quality' of service. Lowest cost in itself does not necessarily represent the best outcome, if this is achieved at a cost to the quality of the service.

6. These statistics do come with a health warning. The survey is based on pension administration only. All authorities are set up with different structures. The WPF moved to a single team section including administration, accounting and investment activities in 2007. Most other authorities still include administration within their payroll section with the accounting and investments functions separate within their finance teams. The allocation of costs into the categories, especially the apportionment of overheads, can also be treated differently between authorities. Nevertheless, this data remains extremely useful as it will inform officers to question and challenge areas of performance.

Administration Costs

7. The total administration cost per member is £23.47 which is lower than the comparator (£23.49) but slightly higher than the all schemes survey (£22.72). It's comforting that at a high level the cost of operating the scheme is in line with its peers.

8. Staff costs per member (£8.15) are below both the comparator and all schemes (both £10.05). This may indicate WPF has a proportionately smaller administration team.

9. The pension payroll cost per member (£3.14) is in line with both other surveys (£3.91 comparator and £3.49 for all schemes). A more meaningful metric is the cost per pensioner (which this activity relates to) of £17.17 for WPF compared with £17.04 for the comparator and £15.55 for all schemes.

10. The survey shows that the overhead cost per member of £5.00 is lower than the comparator (£6.58) and all schemes (£5.99). This includes IT, accommodation, central services charges and external audit. The largest variation is central charges where WPF is £1.23 lower than the comparator and £0.70 lower than the all schemes figure. However, one needs to be weary of the allocation of these costs between authorities.

11. The direct cost per member is £7.93, significantly higher than the comparator (£3.39) and all schemes (£3.26). This includes communications, actuarial and other running costs.

12. Communications is £0.50 per member higher than the comparator. This may be due to WPF having a dedicated Communications Manager along with a review of its communications documentation undertaken in 2009/10.

13. The actuarial cost per member (£3.61) is significantly higher than both the comparator (£1.36) and all schemes (£1.11). This is surprising and requires investigation. WPF did have a high level of activity in 2009/10 due to the number of outsourcings, cessations and bulk transfers undertaken along with the need for additional support during the period the Pension Manager post was vacant.

14. Nevertheless, on examination of annual reports the WPF fee level doesn't appear out of line with other Fund's in the South West. What isn't clear is whether actuarial costs reported by other Funds include only administration type activities (benefits advice, etc.) and not funding and accounting type work traditionally picked up by the finance teams.

Membership

15. It can be seen from the membership profile of WPF has proportionately less pensioners (18%) than the comparator (22%) and all schemes (23%) but a significantly greater proportion of deferred members (34%) than the respective averages (28% & 27%). The proportion of active members is similar at around 40% although WPF has 4% more part timers. Similarly WPF has 5% more female members than males compared to the average Funds.

Administration

16. WPF appears very much in line with the number of joiners, retirements, deaths and other leavers it processed.

17. Of the retirement types processed, these were in line with the averages although WPF appears to have processed more normal retirements (34%) compared to the comparator (15%) and all scheme (19%). This is offset by voluntary retirements (between 60-65) where the WPF proportion was 30% compared to 51% and 45% of the respective averages.

18. The number of pension calculations undertaken per thousand all appears in line with the two averages.

AVCs & ARCs

19. The number of AVC's taken up by the membership is much lower than the two averages. This may have been the consequence of the previous providers. Prudential, who were appointed last year, take a more active role in promoting AVCs and run a number of presentations for scheme members.

20. ARC's replaced the Added Years schemes that terminated with the change in LGPS scheme in 2008. To date there hasn't been much take up of this new contract where members can purchase additional pension.

Number of Appeals

21. The number of appeals at either stage 1 or stage 2 of the Internal Dispute Resolution Procedure process was below both the averages.

Staff

22. The survey indicates shows that 46% of the Administration team have a relevant qualification which is below the comparator (61%) and all schemes (64%). It also reveals that WPF have less staff at the higher qualification levels than the comparator and all schemes. However, WPF have a good proportion of staff who have achieved the Institute of Pensions Professional Managers (IPPM) Foundation level.

23. WPF has a low proportion of staff with more than 10 years experience. The majority of the team have between 1 to 5 years which reflects the recent turnover, especially of longer serving team members who have been replaced with less experience staff over the past three years.

24. The training and development of staff is a key priority to ensure the WPF has the relevant skills and knowledge to undertake the administration of the scheme and its ever increasing complexities. This is an integral part of the current appraisal cycle and the skills level will be carefully considered as part of any structure review.

Conclusions from the CIPFA Benchmarking Survey

25. The survey does provide an element of comfort that WPF is broadly in line with other LGPS schemes. There are areas to focus on, namely, actuarial and communication costs and the levels of staff knowledge.

26. Over time, WPF will be able to show a trend analysis to demonstrate performance which will make this survey a more meaningful management tool.

Progress on KPMG Benchmarking Report

27. At the last committee, Members were presented with a report outlining what the Fund needs to implement to improve on its score as part of the 2010 Pension Schemes Financial Control Peer Group Comparison. Explained below are the specific actions undertaken or being undertaken:

Internal Audit

a. Internal Audit is recommencing its rolling audit of the WPF. There had been a gap of three years during which the service undertook a review of its administration processes. An audit plan has now been agreed and is due for completion before the financial year end.

Management Accounting

b. To improve the management accounting score this Committee will be provided with bi-annual updates of the budget monitoring position.

Administration

c. To improve the administration score the Fund is currently undertaking reconciliation of member's data. The objective is more frequent reconciliations. Work has been spent on reconciling the data between the WPF and Wiltshire Council, the schemes largest employer, with each active member on the database now sharing the same SAP payroll number used by Wiltshire Council. This enables future reconciliations to be undertaken much more easily. The Fund will next focus on Swindon Borough Council as the second largest employer. The majority of the members with other employers were reconciled last year as part of the 2010 Triennial Valuation data capture exercise. Processes are being put in place to ensure these are regularly reviewed.

d. The Fund is currently implementing a workflow system for the allocation and monitoring of administration work. This will enable the Fund to keep track of the status of tasks while providing more accurate management information on the amount, type and turnaround times to assist with performance monitoring (making reporting into the CIPFA Benchmarking club easier). This should be fully implemented by financial year end.

Contribution controls and record keeping.

e. The reconciliation of contribution data is traditionally done annually and loaded into the pension database. This will still be the case although each month the amount paid by each employer is now reconciled to the individual member. This will enable issues arising at year end to be resolved quicker and provides a better audit trail.

Investment Managers

f. Officers have now included the review of the investment managers AAF01/06 or SAS70 reports as part of their interim meetings.

g. For pooled accounts, officers receive the annual accounts and complete a high level review looking for any qualifications or potential issues that may be of concern.

28. There are other areas where scores could be improved but the cost and resource of implementing this outweighs the perceived benefit. These include the setting up of separate administration and investment sub-committees and the more regular review of service providers such as the custodian by specialists.

29. The next version of the KPMG report will be presented at the May 2011 meeting. It's hoped the next report will be LGPS specific unlike the previous version that included both public and private sector KPMG clients.

Risk Assessment

30. The CIPFA benchmarking survey indentifies relatively higher costs for actuarial and communications compared to the Fund's peers. Any reduction of costs in these areas could potentially impact on PEN008: *failure to comply with LGPS and other regulations* and PEN013: *failure to communicate properly with stakeholders* highlighted in the risk register elsewhere on this agenda and would need careful consideration.

31. It also highlights the expertise and experience levels of the pension team compared to its peers. The Fund needs to ensure the correct level of knowledge is maintained to ensure risks PEN011: *lack of expertise of Pension Fund Officers and Chief Finance Officer* and PEN012: o*ver reliance on key officers* is mitigated.

32. The actions being undertaken as a result of the KPMG report will ensure the following risks are mitigated:

- PEN002*: failure to collect and account for contributions from employers and employees;*
- PEN005*: loss of funds through the fraud and misappropriation; and*
- PEN010*: failure to keep pension records up to date and accurate*.

Environmental Impact of the Proposals

33. There are none.

Financial Considerations & Risk Assessment

34. The report considers the financial aspects from the CIPFA Benchmarking survey. The KPMG report reviewed the financial procedures and failure to have proper financial controls and good governance within the Fund could lead to poor management of assets, incorrect payments being made and ultimately maladministration claims from the membership with fines from the pension regulator.

Proposal

35. The Committee is asked to note the report and actions being taken to improve the performance of the Fund.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

CIPFA Pension Administration Benchmarking Club 2010 – Wiltshire Council Report.

Appendix

CIPFA Administration Benchmark Survey

Costs / Member

	Wiltshire Council	Average comparator survey	Average all schemes survey
Total administration costs per member	£23.47	£23.49	£22.72
Staff costs per member	£8.15	£10.05	£10.05
Direct costs per member*	£7.93	£3.39	£3.26
Pension payroll costs per member **	£3.14	£3.91	£3.49
Overheads per member ***	£5.00	£6.58	£5.99
Income	£0.75	£0.21	£0.18

* Direct costs per member

	Wiltshire	Comparator Average	All schemes average
Communications	£1.35	£0.85	£0.92
Actuaries	£3.61	£1.36	£1.11
Other	£2.97	£1.18	£1.23

** Payroll cost per pensioner

	Wiltshire	Comparator Average	All schemes average
Payroll cost per pensioner	£17.17	£17.04	£15.55

Wiltshire	£23.47
Club Average	£22.72
Outsourced average	£21.11
In-house average	£22.85

*** Overheads per member

	Wiltshire	Comparator Average	All schemes average
IT - Pensions Admin	£1.73	£2.12	£2.14
IT - All Other	£0.36	£0.63	£0.68
Accommodation	£0.60	£0.78	£0.75
Other Central Charges	£1.23	£2.37	£1.93
External Audit	£1.07	£0.67	£0.49

Membership

	Count of members	%	Comparator Average	All schemes average
Total scheme members	49,597			
Total pensioners	9,058	18%	22%	23%
Full time	7,180	14%	19%	20%
Part time	12,240	25%	21%	20%
Deferred	16,859	34%	28%	27%
Dependants	1,693	3%	4%	4%
Other	2,567	5%	6%	5%
	49,597	**100%**		

Composition of active members

	Count	%	Comparator Average	All schemes average
Male	4,346	22%	27%	29%
Female	15,074	78%	73%	71%

Administration

Joiners & Leavers (per '000 active members)

	Count	Per 1000	Comparator Average	All schemes average
Joining	2,309	119	135	118
Retiring	741	38	37	39
Deaths	293	15	19	19
Other leavers	323	17	79	80

Retirements

	Count	%	Comparator Average	All schemes average
Normal	252	34%	15%	19%
Incapacity/ill-health	41	6%	6%	6%
Redundancy/inefficiency	126	17%	14%	18%
Under 60 (emp. consent)	12	2%	2%	3%
60-65 (voluntary)	224	30%	51%	45%
Over 65 (late)	74	10%	10%	8%
Flexible	12	2%	2%	2%
	741	**100%**		

Actual calculations

	Count	'000	Comparator Average	All schemes average	Active members
Retirements	741	38	39	41	19,420
Transfers in	191	10	20	18	
Transfers intra	125	6	11	14	
Transfers out	262	13	12	11	
Refunds	61	3	7	9	
Frozen refunds	21	1	2	4	
Preserved benefits	1600	82	90	85	
AVCs, ARCs etc	9	0	2	2	
Divorce cases	6	0	1	1	
Deaths in service	17	1	1	1	
Death of pensioners	276	14	16	19	

Contributors to AVCs and ARCs

	Count	%	Comparator Average	All schemes average	Active members
Currently contributing					19,420
- AVC	245	1.30%	2.40%	3.40%	
- ARC	0	0.00%	0.10%	0.10%	
Total	245	1.30%	2.50%	3.40%	
New contributors this year					
- AVC	9	0.05%	0.17%	0.23%	
- ARC	0	0.00%	0.06%	0.04%	
Total	9	0.05%	0.23%	0.28%	

Number of Appeals

	Count	Per '000 members	Comparator Average	All schemes average	Club total
In progress at start of year	1	0.05	0.13	0.07	48
New appeals during year	2	0.10	0.16	0.16	195
In progress at end of year	3	0.15	0.17	0.09	69

Staff

Staff qualifications

	FTE	%	Comparator Average	All schemes average
Pensions Manager Institute			3%	2%
APSA	1.0	5%	8%	10%
IPPM Nat. Cert - Diploma	1.0	5%	17%	20%
IPPM Nat. Cert - Intermediate			0%	1%
IPPM Nat. Cert - Foundation	4.0	19%	12%	13%
QPA			2%	5%
QPSPA			0%	0%
Other relevant	3.5	17%	18%	13%
No relevant	11.3	54%	39%	36%
	20.8			

APSA: Association of Pension & Superannuation Administrators
IPPM: Institute of Pension Professional Managers
QPA: Qualification in Pension Administration
QPSPA: Qualification in Public Sector Pension Administration

Staff experience

	FTE	%	Comparator Average	All schemes average
< 1 year	0.0	0%	7%	5%
1 - 5 years	11.3	54%	26%	27%
5 - 10 years	6.5	31%	24%	22%
10 - 15 years	0.0	0%	11%	15%
> 15 years	3.0	14%	32%	30%
	20.8			

Staff turnover

	FTE	%	Comparator Average	All schemes average
Total section FTE	20.8			
Joining section	2.0	9.6%	11.1%	6.6%
Leaving section	3.0	14.4%	8.4%	6.5%

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

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

Background

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

Key Considerations for the Committee / Risk Assessment / Financial Implications

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

4. The Risk Register has been revised in-line with the standard Wiltshire Council template. The main impact of this is the removal of the inherent risk scores.

5. The following risks have changed or been updated since the last report to this Committee on 2 December 2010:

   a) **PEN006a / PEN007a: Significant rises in employer contributions for secure employers due to increases in liabilities / Significant rises in employer contributions for secure employers due to poor/negative investment returns** – This has decreased from amber to green. The implementation of the Stabilisation Policy for secure employers will limit the potential future short term increase in contribution rates. All secure employers (with the exception of one) have chosen to take advantage of this policy which will see rates remain the same until April 2014 followed by a +1% per annum increase after that. Therefore, the likelihood of significant future increases has reduced.

   b) **PEN013**: **Failure to communicate properly with stakeholders** – The risk has changed from green to amber. In the June budget the Government announced changes in the Annual Allowance and Life Time Allowance for tax exemptions which will come into effect from 1 April 2011 and 1 April 2012 respectively. This will mainly impact on members earning above £100k although the exact guidance on its implementation is still be finalised. This will come into force as part of the Finance Bill 2011. The Fund has spent time communicating this change to members. This has been done through contact with employer HR departments, notification to scheme members through the newsletter, the setting up of presentations and placing of further information on the Fund's website.

It's also intended to write directly to all scheme members with pay above £100k to further explain these changes in case they have missed the earlier communications.

The responsibility of the Pension Fund Administrator is to provide details of any pension increase above the £50k allowance within 6 months of the tax year end (October 2012). Work is on-going to determine how to provide this and the hope is the system administrator will be able to develop their database to allow this.

c) **PEN017: Lack of expertise on Pension Fund Committee** – This risk has reduced from Amber to Green following the completion of the Members Self-Assessment and the implementation of the Members Training Plan.

Environmental Impacts of the Proposals

6. There no known environmental impact of this report.

Proposals

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

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

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

APPENDIX

Wiltshire Pension Fund Risk Register — 10 February 2011

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	The Fund upgraded its database from AXISe to ALTAIR in August. Monitoring of the system continues to ensure any issues are identified and remedy.	Martin Summers		2	2	4	Low	10 Feb 2011	→
PEN002	**Failure to collect and account for contributions from employers and employees on time**	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of AXISe/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	2	1	2	Low	None	Catherine Dix		2	2	4	Low	10 Feb 2011	→
PEN003	**Insufficient funds to meet liabilities as they fall due**	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. However, this would not conceivably be an issue for the Wiltshire Pension Fund for many years to come, because it is currently "immature" and very cashflow positive.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	4	1	4	Low	None	David Anthony		4	1	4	Low	10 Feb 2011	→
PEN004	**Inability to keep service going due to loss of main office, computer system or staff**	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan in place	4	2	8	Medium	Fire Proof Safe being procured to store microfiches and costs of transferring to digital media being assessed.	Andy Cunningham	Mar-11	4	1	4	Low	10 Feb 2011	→
PEN005	**Loss of funds through fraud or misappropriation**	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	10 Feb 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN006a	**Significant rises in employer contributions for secure employers due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (eg. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The implementation of the Stabilisation Policy will limit increases for secure employer. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	David Anthony / Andy Cunningham	Mar-11	3	2	6	Medium	10 Feb 2011	↓
PEN006b	**Significant rises in employer contributions for non-secure employers due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (eg. early retirements, augmented service, etc).	3	2	6	Medium	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	David Anthony / Andy Cunningham	Mar-11	3	2	6	Medium	10 Feb 2011	→
PEN007a	**Significant rises in employer contributions for secure employers due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	Quarterly monitoring in investment movements is undertaken providing advance warning to employers. A review of investment strategy is to be undertaken in the spring. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	May-11	3	2	6	Medium	10 Feb 2011	↓
PEN007b	**Significant rises in employer contributions for non-secure employers due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	3	2	6	Medium	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues.	Catherine Dix	Mar-11	3	2	6	Medium	10 Feb 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN008	**Failure to comply with LGPS and other regulations**	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	2	2	4	Low	A close eye is being kept on the new Altair system implemented in August 2010 at present to ensure its output remains in line with expectations.	Martin Summers / Catherine Dix		1	2	2	Low	10 Feb 2011	→
PEN009	**Failure to hold personal data securely**	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies.	2	2	4	Low	It is intended to do a full data protection audit for the Fund shortly.	Tim O'Connor		2	1	2	Low	10 Feb 2011	→
PEN010	**Failure to keep pension records up-to-date and accurate**	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (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".	2	4	8	Medium	The latest Audit report highlighted that records were not in a consistent form and some pieces of information were missing. With the implementation of SAP, Altair and our systems review this is an area being developed. Detailed reconciliations are being undertaken between WC payroll and the Fund's data.	Tim O'Connor	Aug-11	2	1	2	Low	10 Feb 2011	→
PEN011	**Lack of expertise of Pension Fund Officers and Chief Finance Officer**	Professional judgement & activities	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc.	3	2	6	Medium	Officers 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.	David Anthony	Mar-11	2	1	2	Low	10 Feb 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk Owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Further Actions necessary to manage the risk**	**Risk Action Owner**	**Date for completion of action**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Date of Review**	**Direction of Travel**
PEN012	**Over-reliance on key officers**	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the Section are seeking to transfer specialist knowledge to colleagues 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.	2	2	4	Low	The Pension's Team are currently awaiting the outcome of the Finance restructure so two posts haven't been filled on a permanent basis. The Benefits Team Leader and Senior Pension Assistant have been filled on a secondment basis for 6 months.	David Anthony	May-11	2	1	2	Low	10 Feb 2011	→
PEN013	**Failure to communicate properly with stakeholders**	Stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor and they may misadvise their employees.	David Anthony	The Fund has a dedicated Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	2	3	6	Medium	The change in the Annual Allowance and Lifetime Allowances for tax exemptions for high earners comes into effect from 1/4/11. The exact details of the changes have yet to be finalised by the Government in the Finance Bill 2011 but we have communicated to employers and employees what we know to date. Late amendments to the draft may impact on the implementation of systems for reporting purposes.	Zoe Stannard & Andy Cunningham	Apr-11	1	1	1	Low	10 Feb 2011	↑
PEN014	**Failure to provide the service in accordance with sound equality principles**	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	10 Feb 2011	→
PEN015	**Failure to collect payments from ceasing employers**	Finance	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	2	2	4	Low	All new admitted bodies now require a guarantor to join the Fund. Work is on-going with ceased employers without a guarantor to ensure the costs are met.	Andrew Cunningham		2	1	2	Low	10 Feb 2011	→
PEN016	**Treasury Management**	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved 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. This is being refreshed in 2011 with a £8m counterparty limit.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	10 Feb 2011	→

							Current Risk Rating							Target Risk Rating					
Ref.	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk Owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Further Actions necessary to manage the risk**	**Risk Action Owner**	**Date for completion of action**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Date of Review**	**Direction of Travel**
PEN017	**Lack of expertise on Pension Fund Committee**	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. Members have been assessed and a training plan set which is being implemented over the next two years.	David Anthony	Nov-12	2	1	2	Low	10 Feb 2011	↓

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

WILTSHIRE PENSION FUND – FUNDING STRATEGY STATEMENT

Purpose of the Report

1. This report provides Members with an updated Funding Strategy Statement for Wiltshire Pension Fund for consideration and approval.

Background

2. Under the Local Government Pension Scheme Regulations, all funds have a statutory obligation to produce a Funding Strategy Statement (FSS). These are produced in connection with the Triennial Actuarial Valuation.

3. This is the third FSS produced for the Wiltshire Pension Fund, the previous having been approved by this Committee on 27 February 2008. This new FSS is a refresh of the previous one and there are no new policies within it that Members have not approved before.

4. This FSS embodies the principles that have been used in the 2011 Valuation and is consistent with the principles used in determining changes to the Fund's investment strategy between 2007 to 2010.

The Funding Strategy Statement Document

Purpose

5. The purpose of the Statement is:

   - To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met;

   - To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and

   - To take a prudent longer-term view of funding liabilities.

6. It has been prepared in collaboration with the Fund's Actuary and Investment Advisors. It forms an integral part of the framework within which the Fund's Actuary carry out triennial valuations to set employers' contributions and to provide recommendations on funding decisions.

7. The aims of the funding policy are set out on page 3 (2.3), with the primary one being to achieve 100% funding through the maximisation of investment returns based on an appropriate level of risk.

Solvency and Target Funding Levels

8. The FSS states how the Common Contribution Rate (CCR) is derived and explains the split of employer contributions between Future Service Rate and Past Service Adjustments (page 4, 3.1) and how the actuary measures the solvency of the fund (page 5, 3.2).

9. The principles for calculating employer contribution rates and the reasons why an individual employer's differs from the CCR is explained in 3.4 to 3.8. This has been updated to include the impact of the Stabilisation policy which was approved by this Committee last year.

10. The rules for Admission Bodies that cease are explained in 3.9. This highlights that if an agreement is terminated, a special valuation is carried out by the actuary to determine if there is a funding deficit.

11. The policy on early retirement costs (3.10) is that the actuary makes no allowance for non ill health retirements. These costs are met by the employer through additional capital contributions.

Links to Investment Strategy

12. The FSS describes how funding and investment strategy is inextricably linked and explains the rationale for the investment strategy adopted. The current benchmark is to proportion assets between 65% equities, 20% bonds, 13% property and 2% in currency (page 16, 4.1).

13. The document highlights that all employer bodies follow the same strategy, since it was previously established through consultation with employer bodies that the cost-benefit balance of operating different investment strategies for different employers was not justifiable.

14. Reference is given on page 17 (4.3) to the need to balance risk and reward. This is explored using Asset-Liability techniques that model solvency, contribution rates and their volatility and was used prior to implementing the current investment strategy.

Key Risks & Controls

15. The FSS describes the key risks (financial, demographic, regulatory and governance) and highlights the controls in place to mitigate them (page 18-21, 5.1.to 5.5). For example, an illustration of financial risks is the failure of assets to deliver anticipated returns. This is controlled through analysing progress at the three year valuations and inter-valuation monitoring of liabilities relative to assets.

Reasons for Proposals

16. To fulfil the Wiltshire Pension Fund's statutory obligation to produce a FSS.

Environmental Impact of the Proposals / Risk Assessment

17. There are no known environmental impacts or risks associated with this proposal.

Proposal

18. The Committee is asked to approve the draft Wiltshire Pension Fund - Funding Strategy Statement, as attached in the Appendix.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony

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

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1. Introduction

This is the Funding Strategy Statement (FSS) of the Wiltshire Pension Fund ("the Fund"), which is administered by Wiltshire County Council, ("the Administering Authority").

It has been reviewed by the Administering Authority in collaboration with the Fund's Actuary, Hymans Robertson, and after consultation with the Fund's employers and Investment Adviser. This revised version replaces the previous FSS and is effective from 31 March 2011.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations(Administration) Regulations 2008 (SI 2008, No. 239);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

Operating within this framework, the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, for example when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every third year (in which triennial valuations are carried out), with the next full valuation due to be finalised by March 2014 based on data at 31 March 2013.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact David Anthony in the first instance at david.anthony@ wiltshire.gov.uk or on 01225 713620.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department for Communities and Local Government (CLG)) stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the key objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy 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.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer or pool together with individual past service adjustments according to employer (or pool) -specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It also identifies which employers' contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

Where an admission agreement for an admission body, that is not a Transferee Admission Body and with no guarantor, is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.9 for the treatment of departing employers.

3.3 Ongoing Funding Basis

<u>(a) Life expectancy</u>
The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in CLUBVITA, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the CLUBVITA's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach, is to add around one year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

(b) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for an anticipated out-performance of returns from equities relative to Government bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken.

For the purpose of the triennial funding valuation at 31 March 2010 and setting contribution rates effective from 1 April 2011, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than the return available from investing in government bonds at the time of the valuation (this is the same as that used at the 2007 valuation). The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset out-performance assumption (AOA) of 1.6% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

(c) Salary growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11 and 2011/12. After this point, the assumption will revert back to RPI plus 1.5% p.a. This compares to RPI plus 2% p.a. assumed at the previous valuation and reflects an expectation of lower long term salary growth.

(d) Pension increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010.

At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the

Fund's liabilities.

(e) General
The same financial assumptions are adopted for all employers for whom the ongoing basis is deemed to be appropriate.

The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so, the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a lower discount rate (most usually for Admission Bodies in the circumstances outlined in 3.2).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Only Admission Bodies have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

The individual employers do not contribute at the Common Rate of contribution. Rather the Common Rate is amended using employer specific adjustments to produce individual employer contribution rates. These individual employer rates are made up of employer-specific future service contribution rates, and employer-specific deficit adjustments designed to remove their deficit. The deficit and future service rate reflect the following factors:

- the level of past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

Each of these factors will have an impact - either at the valuation date or over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied across all employers within the unitisation model.

3.6 Asset Share Calculations for Individual Employers

Individual employer asset shares are calculated on a monthly basis by the Administering Authority and passed to the Fund Actuary when required. The system uses monthly income and expenditure amounts split by each employer and is operated by the Administering Authority in accordance with a procedure note, which allows for complications such as intra-fund transfers of liabilities. The system provides a full audit trail of calculations.

3.7 Stability of Employer Contributions

3.7.1 General comments on stability of contributions

In setting employer contribution rates, the Administering Authority must balance the aims of stability and affordability with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The more secure the employer, the more emphasis can be placed on stability of employer contributions without jeopardising the Administering Authority's commitment to prudent stewardship of the Fund. For the most secure, long term employers an explicit stabilisation overlay based on a risk-based, stochastic valuation approach is used (see para 3.7.2).

For less secure and shorter term employers (principally, but not exclusively, the admission bodies) it is generally not possible to achieve the same degree of stability in employer contribution rates without compromising on prudent stewardship. However, the Administering Authority may use other measures to achieve a greater degree of stability of employer contributions than would otherwise be the case. These measures include, where circumstances permit:

- Extended deficit recovery periods: and
- Pooling.

The Administering Authority's policies in respect of the use of these approaches are set out in the remainder of 3.7 and in 3.8 below.

3.7.2 Stabilisation of contributions for the most secure employers

For the most secure, long term employers there is an explicit stabilisation overlay. The actuary analyses a number of metrics over the long-term (around 20 years), including the evolution of the funding level to check the likelihood of achieving the solvency of the Fund over the longer-term under a variety of contribution strategies. This analysis enables the Administering Authority to reduce the effect of short term investment market volatility on the contribution rates of eligible employers.

Circumstances in which eligibility for stabilisation will be reviewed

- The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security. Possible actions may include increases in contributions expressed as a percentage of pay or revised deficit contributions expressed as monetary amounts.
- Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change with effect from April 2011 from RPI to CPI for increases to pensions

in payment).

- The stabilisation rules and eligibility criteria will be reviewed no later than at the 31 March 2013 valuation, with any changes in contribution strategy taking effect from 1 April 2014. The review will take into account factors including but not necessarily restricted to market conditions (the long-term risk-based analysis will be recalibrated to market conditions as at 31 March 2013), the Administering Authority's assessment of employer's security and the maturity of each employer's membership profile.

Setting the parameters of the stabilisation overlay

The parameters for the stabilisation overlay have been determined by carrying out an asset liability modelling exercise. This allows for the future uncertainty in investment returns, interest rates and inflation using a stochastic modelling technique. The actuary tested the contribution stabilisation rules to ensure that they were compatible with the current investment strategy. He has advised the Administering Authority that the stabilisation overlay for secure long term employers satisfies the requirement for the funding strategy to take a prudent longer-term view. The actuary believes that there is a sufficiently high likelihood of achieving the long term funding objective (a funding level of 100% on a sufficiently prudent basis) where contributions are paid at the stabilised rate.

3.7.3 *Deficit Recovery Periods*

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory Bodies with tax raising powers	a period not exceeding 20 years
Community Admission Bodies	a period not exceeding 14 years
Transferee Admission Bodies & Other Bodies in the Fund as a result of outsourcings from existing member authorities	the period from the start of the revised contributions to the end of the employer's contract but not exceeding 20 years

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2014 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

As part of the overall Funding Strategy it was agreed to adopt a 'stabilisation mechanism' that limits increases and reductions in contribution rates for public sector bodies: see 3.7.2 above. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

For Transferee Admission Bodies, the aim is to be 100% funded at cessation, and so the preferred approach would be to reduce contributions by spreading the surplus over the remaining contract term, although the approach taken may be discussed and agreed with the Scheme Employer associated with the body under Regulation 6.

Any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions may be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions.

3.7.5 Phasing in of Contribution Rises

Any contribution rate rises will be subject to the "stabilisation mechanism" set out in 3.7.2 above for public sector bodies. Other bodies, with the exception of Transferee Admission Bodies, may be permitted to phase in contribution rises over a period of three years.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions will be subject to the 'stabilisation mechanism' set out in 3.7.2 above for public sector bodies. Other bodies including Transferee Admission Bodies can take the reduction with immediate effect, subject to paragraph 3.7.2 above.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However, other than where the stabilisation mechanism is being applied, any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.8 Pooled Contributions

3.7.8.1 Smaller Employers

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 50 employees.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

For both the 2007 and 2010 valuations, a separate pool was operated for Town and Parish Councils

3.7.8.2 Other Contribution Pools

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in Annex A.

3.7.9 Additional flexibility in return for added security

Where the above methods for improving stability of employer contributions do not automatically apply, the Administering Authority may permit a reduced rate of contribution and/or an extended deficit recovery period. Or permit the employer to join a pool with another body (e.g. the Local Authority). If the employer provides added security to the satisfaction of the Administering Authority. Such security may include, but is not limited to, as a suitable bond, a guarantee from an appropriate third party, or security over an employer asset of sufficient value.,

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

The administering authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. The administering authority may, at its sole discretion, agree alternative funding approaches on a case by case basis but will at all times taking into account its responsibilities in regard to the security of the Fund..

3.8 Regular reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

3.9 Admission Bodies ceasing

Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can be terminated at any point subject to the terms of the agreement.

Notwithstanding the provisions of the admission agreement, the Administering Authority considers any of the following as triggers for the termination of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

In addition, either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation under Regulation 78 to determine whether there is any surplus or deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies, the assumptions would usually be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, the default position is that the Admission Body is expected to take full responsibility for its own funding. There may be circumstances where it is agreed that it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body (normally) as a capital payment.

3.10 Early Retirement Costs

3.10.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions whenever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement. Advice and guidance on the costs of these are specified by the Fund's actuary from time to time.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

3.10.2 Ill health monitoring

The Fund monitors each employer's, or pool of employers, ill health experience. If the cumulative amount of ill health retirements in any financial year exceeds the allowance at the previous valuation, the Administering Authority reserves the right to charge the employer with additional contributions on the same basis as apply for non ill-health cases.

3.10.3 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at May 2010 the benchmark for the Fund's assets was 65% in equities, 20% in bonds, 13% in property and 2% in currency.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of member's benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers. This had been considered as part of the 2004 Actuarial Valuation in the context of reducing the volatility of employers' contribution rates, but at present the cost-benefit balance of such an arrangement does not make it justifiable. However, it will be kept under review.

4.2 Consistency with Funding Basis

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 2.1).

The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. Both the Fund's Actuary and its Investment Adviser consider that the funding basis does conform to the requirement to take a "prudent longer-term" approach to funding.

The Administering Authority is aware that in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

When deciding its current investment strategy in 2006, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher return asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

In the light of the sensitivity of employers' contributions to changes in investment returns, in 2004 the Administering Authority reviewed whether its single strategy should be refined, in consultation with the employer bodies. However, the results showed that whilst all employers' contributions were significantly volatile, there are only a very few smaller employers whose volatility profile is significantly different to the average. Therefore, given the cost of establishing and administering multiple investment strategies, it was decided that they could not be justified for the present. However, the situation will be kept under review (see paragraph 4.4).

4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority intends to monitor investment performance relative to the growth in the liabilities by means of quarterly inter-valuation monitoring reports. It will report back to employers if and when this monitoring suggests that changes to investment or contribution strategy should be considered (see paragraph 4.3).

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Commission a quarterly funding update for the Fund as a whole, on an approximate basis.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation monitoring of liabilities relative to assets between formal valuations at individual employer level on a six monthly basis*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Continue to review feasibility of allowing some form of employer-specific investment strategy.* *Inter-valuation monitoring, as above.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) and long-term (3-5 years) investment monitoring analyses market performance and active managers relative to their index benchmark.*

Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*An explicit stabilisation mechanism has been agreed as part of the Funding Strategy.*

5.3 Demographic Risks

Risk	**Summary of Control Mechanisms**
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy.* *Fund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	*Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the Government and comments where appropriate.* *The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communiated with members to minimise possible opt-outs or adverse actions.* *The Administering Authority will consult employers where it considers that it is appropriate.*
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006	

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority monitors membership movements on an annual basis, via a report from the administrator.* *The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit contributions are expressed as monetary amounts in most cases (see Annex A).*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Transferee Admission Agreements.*

An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

[Table to be inserted after the final Rates & Adjustments Certificate is signed]

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; excess ill health early retirements if appropriate; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund Actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

TREASURY MANAGEMENT STRATEGY

Purpose of the Report

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

Background

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

3. Following concerns about so-called "co-mingling" of local authority and pension fund cash balances, and the associated risk of cross-subsidy, the same Regulations require that the two sets of cash investments are also managed separately. 2011/12 will be the second year that investments have been managed separately.

Considerations for the Committee

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

The key points of the Treasury Management Strategy

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

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

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

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

      i. A maximum of £8 million with any single counterparty, (an increase of £3m from last year). The maximum amount held is approximately £8m. Increasing the limit to this level will ensure we could remove any counter-party at short notice and not breach this limit.

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

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

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

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

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

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

i. Paying benefits due under the Scheme; or

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

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

Environmental Impact of the Proposal

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

Financial Considerations & Risk Assessment

7. This has been dealt with in this paper. The implementation of this Treasury Strategy mitigates the risk PEN016: Treasury Management outlined on the risk register elsewhere on this agenda.

Reasons for Proposals

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

Proposals

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

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: Catherine Dix, Fund Investment & Accounting Manager.

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

Appendix

WILTSHIRE PENSION FUND
TREASURY MANAGEMENT STRATEGY

Operational Context

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

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

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

Regulatory Context

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

5. The Fund will also have regard to:

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

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

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

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

Investment Policy

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

   a) The security of capital; and

   b) The liquidity of investments.

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

8. All cash investments will be in sterling.

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

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

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

    a) A maximum of £8 million with any single counterparty.

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

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

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

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

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

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

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

15. An extract of the appropriate parts from Wiltshire Council's latest Treasury Management Strategy (2011-12) is given in the Annex for information.

Borrowing Policy

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

    a) Paying benefits due under the Scheme; or

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

Management Arrangements

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

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

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

10. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority will comply with the requirements of SI 2009 No 393.

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

    a) credit watches (typically resolved over a relatively short period) and credit outlooks (indicates the direction a rating is likely to move over a one to two-year peiod) from credit rating agencies;

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

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

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

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

    d) Yellow – 5 years (a new category introduced by the treasury advisers late in 2010 to cover AAA rated Government debt or its equivalent, including a new investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);

    e) Purple – 2 years;

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

g) Orange – 1 year;

h) Red – 6 months;

i) Green – 3 months; and

j) No Colour – not to be used.

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

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

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

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

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

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

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

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

17. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings.

<u>The Minimum requirements for "high credit rating"</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

a) Up to £15 million:

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

b) Up to £8 million:

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

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

Investment Duration Matrix

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

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