Wiltshire Council
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AGENDA

Meeting:	Wiltshire Pension Fund Committee
Place:	Council Chamber - Council Offices, Monkton Park, Chippenham, SN15 1ER
Date:	Thursday 25 July 2013
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Kieran Elliott, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718504 or email kieran.elliott@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**
Chairman's Briefing	25 July	09:30	Council Chamber

Membership:

Wiltshire Council Members:
Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice-Chair)
Cllr Mark Packard
Cllr Sheila Parker
Cllr Graham Payne

Substitute Members
Cllr David Jenkins
Cllr Fleur de Rhé-Philipe
Cllr Ian Thorn
Cllr Roy While
Cllr Philip Whitehead
Cllr Graham Wright

Swindon Borough Council Members
Cllr Brian Ford
Cllr Des Moffatt

Employer Body Representatives
Mrs Lynda Croft
Mr Tim Jackson

Observers
Mr Tony Gravier
Mr Mike Pankiewicz

PART I

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

1 **Membership**

To note any changes to the membership of the Committee.

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

3 **Apologies for Absence**

To receive any apologies or substitutions for the meeting.

4 **Minutes** *(Pages 1 - 6)*

To confirm the minutes of the meeting held on 04 June 2013.

5 **Chairman's Announcements**

To receive any announcements through the Chair.

6 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

7 **Public Participation and Councillors' Questions**

The Council welcomes contributions from members of the public.

<u>Statements</u>
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.

<u>Questions</u>
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, no later than 5pm on Thursday 18 July 2013. 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 **Review of Membership of the Wiltshire Pension Fund Committee** *(Pages 7 - 10)*

A report is circulated from the Head of Pensions that reviews the terms of membership of the committee and considers whether fixed term tenures should be used for non-elected Members.

9 **Pension Fund Risk Register** *(Pages 11 - 18)*

An update from the Head of Pensions on the Wiltshire Pension Fund Risk Register is circulated for Members' consideration.

10 **Draft 2012-13 Annual Report** *(Pages 19 - 82)*

The draft annual report for 2012-13 is presented to members for approval.

11 **Review of Academies** *(Pages 83 - 92)*

A paper from the Head of Pensions outlines the Fund's position in respect of Academies and the current issues associated with them.

12 **Statement of Investment Principles (SIP)** *(Pages 93 - 112)*

A report from the Fund Investment & Accounting Manager requesting Committee to approve the annually updated SIP for 2013.

13 **Proposed Terms of Reference for the Investment Sub-Committee** *(Pages 113 - 118)*

A report is circulated by the Head of Pensions outlining the proposed Terms of Reference for a sub-committee to review opportunistic investment opportunities as they arise.

14 **Local Government Pension Scheme (LGPS) Reforms Update** *(Pages 119 - 136)*

A written report by the Head of Pensions is circulated updating the Committee on developments since the last meeting and outlining the current consultations.

15 **Date of Next Meeting**

Members are asked to note that the next regular meeting of the Committee will be held on Thursday 19 September 2013.

16 **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.

17 **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 18-21 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

18 **Implementation of a Stabilisation Policy for the 2013 Valuation** *(Pages 137 - 142)*

To consider and approve a confidential report from officers and a presentation from the Actuary reviewing the Wiltshire Pension Fund's Stabilisation Policy ahead of the 2013 Valuation.

19 **Review of Manager Fees update**

A verbal update will be provided by Mercers in respect of the on-going work in relation to fee reviews.

20 **Western Asset Management - Review of 2012-13 & Plans for the Future**

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

21 **Barings - Review of 2012-13 and Plans for the Future**

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

Wiltshire Council
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WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 4 JUNE 2013 AT COUNCIL CHAMBER - COUNCIL OFFICES, MONKTON PARK, CHIPPENHAM, SN15 1ER.

Present:

Cllr Tony Deane (Chairman), Cllr Brian Ford, Mr Tony Gravier, Cllr Charles Howard (Vice-Chair), Cllr Des Moffatt, Cllr Mark Packard, Mr Mike Pankiewicz, Cllr Sheila Parker and Cllr Graham Payne

Also Present:

Cllr Dick Tonge and Cllr Graham Wright

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21 **Membership of the Committee**

The Committee noted the membership following the meeting of full Council on 14 May 2013.

Following discussion, it was,

Resolved:

To review the terms of membership of the Committee, with the Chair and Vice-Chair to bring a report to the Committee on 25 July 2013.

22 **Apologies**

Apologies were received from Mr Tim Jackson and Mrs Lynda Croft.

An apology for late arrival was received from Councillor Sheila Parker.

23 **Minutes of the Previous Meeting**

The minutes of the meeting held on **27 February 2013** were presented for consideration and comment.

It was,

Resolved:

To APPROVE as a true and correct record and sign the minutes.

24 **Chairman's Announcements**

1) The Committee welcomed Councillor Dick Tonge, Cabinet Member for Finance, Performance and Risk, as an observer to the proceedings from the current meeting onwards.

2) To remind Members of the Pension training arranged for **05 July** in the **Usher Suite, Civic Centre, Trowbridge** from **10.30am**.

25 **Declarations of Interest**

There were no declarations.

26 **Public Participation and Councillors' Questions**

There were no questions or statements submitted.

27 **SWAP Internal Audit Report**

The Head of Pensions introduced an internal audit report from South West Area Partnership (SWAP), in accordance with the internal audit plan for 2012-13, in support of the annual audit undertaken by the Council's external auditors, KPMG.

It was noted that no significant weaknesses had been identified, and that the highest achievable assurance rating of 'Substantial Assurance' had been reported, meaning controls were in place, operating effectively and managing risks well.

A discussion followed, where it was highlighted that a report making no additional recommendations was an unusual achievement, and that it followed that all recommendations from the previous year's report had been implemented.

Resolved:

To note the Internal Audit Report and thank officers for their work in achieving it.

28 **Pension Fund Administration Outturn Statement 2012-13**

The Fund Investment and Accounting Officer introduced the Pension Fund Administration Outturn statement for 2012-13. An underspend of £984,000 was reported, mostly as a result of lower investment manager fees tied to performance.

In response to queries it was confirmed that all vacancies in the Pensions team had been filled, but that the Pension Manager would be leaving at the end of June and a recruitment process to find a replacement has begun, and that any underspent monies are reinvested in the Fund.

Resolved:

To note the contents of the report.

29 **LGPS 2014 Reforms Update**

The Head of Pensions gave a verbal update on the Local Government Pension Scheme (LGPS) 2014 Reforms Update, highlighting proposals including but not limited to the move to a Career Average Revalued Earnings (CARE) approach, and shift in accrual rate from 1/60 to 1/49.

It was further confirmed that although the bandings for contribution into Fund would alter, the average contribution rate would remain 6.5%, and there was an emphasis on increased flexibility, including a 50/50 option, whereby contributors could input half the regular amount for half the benefit, to encourage fewer opt outs.

A debate followed, where it was confirmed the final regulations in relation to the reforms were not yet available and that issues remained about proposed Pension Fund governance. The role of Local Pension Scheme Boards to be in place by April 2015 to have oversight of Funds was also noted and the issue of additional bureaucracy this would create was discussed. The possibility of Funds being amalgamated was raised, along with noting a consultation on Councillors Pensions as part of the LGPS 2014 reforms, which it was agreed was more of an issue for employer councillor remuneration policy and that they would be best placed to respond. .

It was further noted the shadow National Advisory Board which would in future make recommendations to the Secretary of State and the Pensions regulator, included two places for councillor representatives, and that nominations needed to be sent by 07 June 2013 for these and the practitioner positions for the 5 sub-committees.

At the conclusion of debate, it was,

Resolved:

1) **To receive a further update at the 25 July 2013 meeting of the Committee;**

2) **To nominate either the Chair or Vice-Chair as potential members of the shadow National Advisory Board and the relevant officers for the practitioners sub-committee roles; and**

3) **To refer to the Cabinets and Democratic Services' of both Wiltsire and Swindon Borough Council regarding the most appropriate avenue to respond to the consultation on Councillors' Pensions.**

30 **Date of Next Meeting**

The date of the next meeting was confirmed as **Thursday 25 July 2013.**

31 **Urgent Items**

There were no urgent items.

32 **Exclusion of the Public**

Resolved:

Agreed 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 Minutes 33 - 37 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding the information)

33 **Investment Quarterly Progress Report Update**

The Fund Investment and Accounting Manager presented the Investments Quarterly Progress Report, highlighting the performance against the benchmark for various mandates of the fund, along with a confidential report from the advisers to the Fund, Mercers.

The Committee discussed the reports, along with potential options for future investments and strategies, as well as the managing of each fund and solutions to any concerns.

It was,

Resolved:

To note the updates and thank Mercers for their report.

34 **Investment Strategy Review: Update and proposal for Opportunistic Investing**

The Head of Pensions introduced the Investment Strategy Review and Opportunistic Investing report, in addition to a confidential report from Mercers.

The Committee discussed the impact on the strategy following the last meeting of the Committee, and the process of appointment of a new advisor for emerging markets, to be completed in October/November 2013.

The Committee also discussed the possibility of a sub-group of the Committee to act as a mechanism to invest in more medium term opportunities.

At the conclusion of debate, it was,

Resolved:

a) to agree that the Fauchier Partners mandate (5% of the Fund's assets) is transferred directly to the new Emerging Markets Multi Asset Manager once appointed; and

b) to agree up to a 5% initial allocation for the purpose of Opportunistic Investing; and

c) to agree to set up a Investment Sub-Committee whose "Terms of Reference" will be drafted and agreed at the July 2013 Committee meeting.

35 **Review of Investment Managers' Fees**

The Head of Pensions introduced a report on a review of Investment Management Fees, in addition to a confidential report from Mercers.

Following discussion, it was,

Resolved:

To commission Mercers to approach the managers listed in the report to review their fee levels payable by the Wiltshire Pension Fund.

36 **Baillie Gifford: Formal Review of the Global Growth Fund Mandates**

Mr Tim Garrett and Ms Susan Shuttleworth from Baillie Gifford gave a presentation and report on the review of their mandate of the Pension Fund, and took questions from the Committee.

Resolved:

To thank the representatives from Baillie Gifford for their presentation.

37 **Legal & General: Formal Review of the Passive UK Equities and Passive Gilts Funds**

Mr Mark Vickery from Legal & General gave a presentation and report on the review of their mandate of the Pension Fund, and took questions from the Committee.

Resolved:

To thank the representative from Legal & General for their presentation.

(Duration of meeting: 10.40 am - 1.45 pm)

The Officer who has produced these minutes is Kieran Elliott, of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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

Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Review Of Membership Of The Wiltshire Pension Fund Committee

Purpose of the Report

1. The purpose of this report is to ask Members to agree an amendment to the Funds governance structure by considering fixed term tenures for non-elected Members of the Committee. It is also intended to publish Committee Members attendance within the Annual Report.

Background

2. At the meeting on 4 June 2013 it was resolved to review the terms of membership of the Committee and to bring a report to this meeting.

3. The Committee consists of 5 members from Wiltshire Council, 2 members from Swindon Borough Council, 2 members representing other organisations within the Fund, along with 2 observers (non-voting members) representing the active / deferred / pensioner members.

4. The Members from Wiltshire Council and Swindon Borough Council are re-elected on 4 yearly cycles. However, the two remaining voting Members have no fixed term.

5. With the rapid increase in employer organisations joining the Fund, in particularly from academies, there is a growing demand from these stakeholders to have a greater involvement in the running of the Fund.

Considerations for the Committee

6. Employers within the Fund fall into the following main categories:

   - **Large Scheduled Bodies** (i.e. main councils, police & fire authorities, probation)
   - **Small Scheduled Bodies** (i.e. town and parish councils)
   - **Education Scheduled Bodies** (i.e. FE colleges, academies)
   - **Admission Bodies** These are either Community Admission Bodies (i.e. public or charitable bodies with a “community of interest” with local authorities, typically housing associations and charities with historic links to the Council) or Transferee Admission Bodies (i.e. private and charitable sector organisations, large and small, that have won contracts from the Scheduled Bodies).

7. At present, the main councils within the Fund are adequately represented, with 7 members in total. Arguably, the other large and small Scheduled Bodies are similar enough in nature and close enough in operation to the main councils to be represented by them on the Committee.

8. The Admission Bodies have a representative, currently Mr Tim Jackson from Greensquare Group, a housing association group. There are currently 36 organisations (an increase of 9 since 2010) that fall into this category covering 4.8% of the membership.

9. However, the one area that is growing rapidly is the number of academies, which are currently represented by Ms Lynda Croft from Wiltshire College. There are now 61 organisations (an increase of 55 since 2010) that fall into this category covering 5.6% of the membership

10. The growth in number of admitted bodies and academies has meant that potentially these groups should have a greater opportunity to be represented on the Committee. Therefore, there are three options here:

    a) To invite an additional voting representative – however, this would require an additional Wiltshire Councillor to be added to the Committee as well, as Wiltshire Council must legally maintain a majority on the Committee as the “Administering Authority”. On this basis, the voting Committee would be 6 Wiltshire Councillors, 2 Swindon Councillors and 3 Admitted Bodies.

    b) To invite non-voting representative – however, this would open up an anomalous position with other non Wiltshire Council employer representatives.

    c) To limit the tenure of the Admitted Bodies & Education Scheduled Bodies representative to a four year term before re-elections are held - this would not require any additions to the Wiltshire Council representation on the Committee, but allow other stakeholders the opportunity to put forward candidates should they wish to be represented.

11. Options a) and b) above have their drawbacks. Increasing the size of the Committee increases the governance requirements and adds additional pressure on the council to find suitable candidates. Additional ‘observers’ is a better option but it would lead to the situation where certain employers are being treated differently. Nevertheless, the preset arrangement does allow organisations to attend as ‘observers’ for the Part1 elements of the meeting.

12. Option c) is the preferred route. Officers are mindful that to be as open and fair as possible, there needs to be opportunity for all stakeholders from the Admitted Bodies and Education scheduled bodies to be represented. Many of these organisations have unique issues such as the potential for volatile contribution rates and large cessation deficits.

13. However, this needs to be measured against the need to retain consistency and acquired knowledge on the Committee to ensure its effective operation. The

Committee understands the commitment and time required to attend meetings and undertake training and therefore the tenure of these posts need to reflect this learning curve. The willing incumbent representatives should also be allowed to serve as long as they are able, but should other candidates come forward at the end of each term then a process should be undertaken to ensure the most appropriate candidate is appointed.

14. In the case where more than one candidate is proposed, an interview process will be undertaken by the Chairman, Vice-Chairman, Director of Finance and Head of Pensions with a preferred candidate shortlisted for appointment at the next scheduled committee meeting.

15. To minimise the administrative process, these two posts should be appointed at the same time. Therefore, it is proposed that the re-appointment process for the two current roles would commence on the 4th anniversary of Ms Lynda Croft's appointment in October 2014.

16. It is also proposed that attendences for all members of the Committee are published within the Annual Report. This is a move that would be in line with a number of other funds and follows good practice in terms of transparanecy for governance arrangements.

Environmental Impact of the Proposal

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

18. There is no know implications at this time.

Financial Considerations & Risk Assessment

19. There would be a marginal increase in the governance costs from having to undertake a selection process should more than one candidate apply for each role. There is a small risk that experience and knowledge will be lost should a representative not be re-elected but this is a factor that should be addressed as part of the selection process.

Reasons for Proposals

20. With the increase in number of employer organisations it would appear in fair and transparent to allow stakeholders the opportunity should they wish to put forward applications for these two roles on the Committee.

Proposals

21. The Committee is asked to:

    a) Agree that the representatives for the employer organisations serve a 4 year fixed term from appointment; and

b) On expiry of the 4 year fixed term, applications for the position will be sought (from the incumbent and the applicable employer bodies) and an appointment process undertaken by the Committee should more than one application be received for the role; and

c) Agree to publish meetings attendance records in the Annual Report; and

d) Ask the Head of Pensions to update the Fund's Governance Compliance Statement in the light of decisions made at this meeting.

MICHAEL HUDSON
Service Director - Finance

Report Author: David Anthony, Head of Pensions.

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

Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Wiltshire Pension Fund Risk Register

Purpose of the Report

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

Background

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

Key Considerations for the Committee / Risk Assessment / Financial Implications

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

4. There have been three significant changes since the last report in February 2013 which are outlined below.

5. **PEN003 Insufficient Funds to Meet Liabilities as They Fall Due** – this risk has increased from green to amber as the result of the acceleration in the "maturity" cash profile of the Fund. The past twenty four months have seen significant changes for the main employers in terms of outsourcings and redundancy programmes. This has led to a reduction in receipts as contributions fall while pension payments have increased. Projecting forward based on current outflows, the Fund is expecting to move to a negative cashflow position during this financial year (excluding investment income).

6. This is a natural development for the Fund and causes more of an operational issue to ensure sufficient cash is available to meet its outgoings. The investment income generated will finance any shortfall that occurs however careful monitoring of cashflow becomes even more important moving forward and should this shortfall increase significantly then the investment strategy may need reviewing.

7. **PEN011 Lack of Expertise of Pension Fund Officers and Service Director, Finance & PEN012 Over-reliance on Key Officers** – these two risks have

increased from green to amber reflecting the current vacancy the Wiltshire Pension Fund has for a Pension Manager. The impact of this has been minimised due to the new pension team structure that ensures adequate knowledge is now available within the different teams but for a short period there will be an increased capacity issue on technical knowledge and work management. However, this is being mitigated with the use of external advisers when required on specific issues. The recruitment process has commenced for a replacement and once an appointment is made this risk will revert back down to green.

8. **PEN018 Failure to implement the LGPS 2014 Reforms** – this is a new risk added to the register to specifically focus on the LGPS 2014 scheme. The new scheme effectively comes into force in 9 months time and the delay in issuing draft regulations by the Government and concerns over the ability for the Fund, employer organisations and software providers to adapt their processes and systems in time for April 2014 is a concern. As more information is being released the Fund will continue to implement its communication's policy and work closely with all stakeholders to assess the issues that need resolving prior to implementation.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Proposals

11. The Committee is asked to note the attached Risk Register and measures being taken to mitigate the current medium risks.

MICHAEL HUDSON
Service Director - Finance

Report Author: David Anthony, Head of Pensions.

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

APPENDIX

Wiltshire Pension Fund Risk Register

04-Jul-13

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Regular review of ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed.	David Anthony		2	2	4	Low	4 July 2013	→
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. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	2	1	2	Low	New electronic forms rolled out to all employers to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	4 July 2013	→
PEN003	**Insufficient funds to meet liabilities as they fall due**	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. This shouldn't be an issue for the Fund but it looks likely that investment income might need to be used within the next 12 months.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, modelling of future cashflows.	2	3	6	Medium	The "maturity" profile of cashflows is changing as a result of employers outsourcings and redundancy programmes. The cashflow profile now needs careful monitoring as benefits paid look to exceed receipts (excluding investment income) during the current financial year.	David Anthony	Sep-13	4	1	4	Low	4 July 2013	↑
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. The team have the ability to work from home or remotely if required. The pension system is also hosted by its supplier, which reduces the risk should Wiltshire Council's IT servers fail.	4	1	4	Low	Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required.	Andy Cunningham		4	1	4	Low	4 July 2013	→
PEN005	**Loss of funds through fraud or misappropriation**	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	4 July 2013	→

							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. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers.	2	3	6	Medium	The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity. A review of this policy is being undertaken elsewhere on this agenda.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 2013	→
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. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring as described above.	2	3	6	Medium	The rates for the 2010 Valuation were agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers. This "contribution relief" policy is being reviewed as part of the 2013 Valuation process. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 2013	→
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	The implementation of the Stabilisation Policy limits increases for secure employer. This policy is being reviewed.	Catherine Dix	Mar-14	2	2	4	Low	4 July 2013	→
PEN007b	**Significant rises in employer contributions for non-secure employers due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	The review of employers long term financial stability and the policy for stepping in of contribution rates assists in affordability issues and this policy is being reviewed for the 2013 Valuation.	Catherine Dix	Mar-14	2	2	4	Low	4 July 2013	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating: Impact	Current Risk Rating: Likelihood	Current Risk Rating: x	Current Risk Rating: Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating: Impact	Target Risk Rating: Likelihood	Target Risk Rating: x	Target Risk Rating: 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.	3	3	9	Medium	Pension team structure review has been implemented which ensures staff with the relevant skills & knowledge are in post. The Technical & Compliance Manager is currently formulating a training plan for the team. A review of the LGPS 2014 reforms will also be required to ensure future compliance. Martin Summers (Pension Manager) has now left the organisation and a recruitment process in underway to replace him.	David Anthony	Sep-13	1	2	2	Low	4 July 2013	→
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. An imaging system has now been implemented which will improve retention of documents and ultimately will lead to a paperless working environment.	Tim O'Connor	Sep-13	2	1	2	Low	4 July 2013	→
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	Systems Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (e.g. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative.	2	4	8	Medium	Further reconciliations have been implemented between Wiltshire Council payroll and the Fund's data while data cleaning continues as part of the 2013 Valuation exercise.	Martin Downes	Aug-13	2	1	2	Low	4 July 2013	→
PEN011	**Lack of expertise of Pension Fund Officers and Service Director, Finance**	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. The Technical & Compliance Manager in formulating annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	3	6	Medium	The team restructure now provides better technical knowledge at the right levels. The vacancy for the Pension Manager post leaves a short term knowledge and resource gap and a procurement process is underway to address this.	David Anthony	Sep-13	2	1	2	Low	4 July 2013	↑

							Current Risk Rating							Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN012	**Over-reliance on key officers**	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the Section are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	3	6	Medium	As described above the loss of the Pension Manager does provide a gap but with the team restructure knowledge levels are in the right place and external consultants are in place to use for any specific issue until a replacement is appointed.	David Anthony	Sep-13	2	1	2	Low	4 July 2013	↑
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 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	Now the proposed changes to the LGPS scheme are known updated information can be circulated to employers and members. The Fund has formulated its strategy to inform members of the changes and where possible working with key stakeholders. Employers are also being reminded of their responsibilities for Autoenrolment.	Zoe Stannard & Andy Cunningham	Feb-14	1	1	1	Low	4 July 2013	→
PEN014	**Failure to provide the service in accordance with sound equality principles**	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	4 July 2013	→
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. All new admitted bodies now require a guarantor to join the Fund.	2	2	4	Low	Work is on-going to develop monitoring of admitted bodies who are close to cessation to enable the Fund to have an early dialogue with them to ensure costs are met.	Andrew Cunningham	Feb-14	2	1	2	Low	4 July 2013	→
PEN016	**Treasury Management**	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved an updated Treasury Management Strategy in Feb 2013 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	4 July 2013	→

							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		2	1	2	Low	4 July 2013	→
PEN018	**Failure to implement the LGPS 2014 Reforms**	Service Delivery	Failure to implement the LGPS 2014 in time for April 2014 in terms of systems changes, data requirements, communications and training.	Unable to meet the new legislative requirements of the scheme and to administer the Fund correctly.	David Anthony	A communication policy has been set up to inform all members of the changes. Systems team in close contact with Software are providers to ensure developments will be actioned. Consultations being responded to ensure issues are raised with CLG.	3	2	6	Medium	The draft regulations have only just been issued (June 2013). Concerns that timeframes for implementation set by the Government are going to be extremely tight. Communications with employers and payroll providers to be moved forward.	David Anthony		2	2	4	Low	4 July 2013	↑

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Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Draft Annual Report For 2012-13

Purpose of the Report

1. The purpose of this report is to present the attached draft Wiltshire Pension Fund Annual Report and Financial Statements 2012-13 to Members for approval.

Background

2. The Wiltshire Pension Fund has a requirement under the Local Government Pension Scheme (Administration) Regulations 2008 SI 2008 No 239 (“the Administration Regulations”) to produce an Annual Report.

3. The Annual Report contains details of the accounts of the Wiltshire Pension Fund for the year to 31 March 2013 and is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund.

4. It supplements the Statement of Accounts of the Council, a formal publication required under the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting. As well as reporting the accounts, the opportunity is taken to cover matters of wider interest that affect the Fund, its investments and general pension provision.

5. Copies of the Annual Report are circulated to all employers of the Fund in an electronic format. Hard copies of the Annual Report are available along with the associated policies referenced upon request.

Risk Assessment

6. The audit of the Wiltshire Pension Fund is not yet finalised and therefore the Audit Opinion and Certificate had not been issued at the time this report was prepared. The Final Audit Report will be presented at the September Committee meeting.

Financial Considerations

7. These are considered in the Annual Report. The outturn for 2012-13 was in line with projection as reported at the June Committee.

Environmental Impact of the Proposals

8. There are none.

Safeguarding Considerations/Public Health Implications/Equalities Impact

9. There are no known implications at this time.

Proposals

10. Members are asked to approve the draft Wiltshire Pension Fund Annual Report & Financial Statements 2012-13 for publication, subject to the completion of the audit.

Michael Hudson
Service Director - Finance

Report Author: Catherine Dix, Fund Investment & Accounting Manager

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

WILTSHIRE PENSION FUND

Report & Accounts
For the year ended 31 March 2013

WILTSHIRE PENSION FUND

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2013

CONTENTS

1. Chairman's foreword

It is with pleasure that I present this Annual Report of the Wiltshire Pension Fund.

The Fund has 20,200 employees currently contributing to it while the number of retired employees receiving regular payments has increased by around 700 to 12,900, the average pension is £4,331. The anticipated trend is the reduction of active membership as public bodies restructure in light of reduced funding for the largest employers. However, cash flow into the Fund remains positive as income from employers and employees exceeds payments to pensioners, although this net contribution is reducing and is being monitored.

Wiltshire Council, which administers the fund is one of the 127 Employer organisations which are members of the fund. Swindon Council & Wiltshire Council are the two largest employers with staff as members of the fund. The Fund has seen an increase in Member bodies over the last 12 months predominantly from the ongoing formation of Academy Schools which have the right of automatic membership.

The Funds assets have increased by £149 million to £1,494 million as at 31st March 2013 reflecting the positive returns across many asset classes. At the last triennial valuation the Funding level was 75%, an actuarial valuation is currently underway as at 31 March 2013 and early indications are this has worsened due to falling bond yields to below 70%.

During the year up to March 2013 there has been one change of membership to the Pension Fund Committee. Councillor Jeff Osborn was replaced by Councillor Fleur de Rhe-Philipe. (a previous main and substitute Committee member). We would like to thank Jeff for his contribution and wish him well for the future.

As the complexity of the scheme ever increases, retention and the development of Committee Members is key to ensure the good governance of the Fund. The Fund's Member Training Plan continues to ensure that Committee Members have the opportunity to gain the appropriate skills and knowledge to assist them to take informed decisions in light of professional advice.

The Committee continues to look at ways of improving the performance of the Fund and employs the best advisors to provide expert advice to assist them in making effective decisions. To this end the Fund work closely with its retained advisors Hymans Robertson and Mercers for both administration and investment issues respectively. The Fund has provided a lead in looking at ways of collaborating to reduce costs and improve services. The Wiltshire Pension Fund was a joint lead in setting up the South West LGPS Actuarial, Benefits and Investment Services Framework which can now be used for specific pieces of work such as Fund Manager search exercises.

Investment markets were generally positive for the year with many asset classes delivering double digit returns. The annual return for the Fund was 10.8%, 0.4% ahead of its consolidated benchmark of 10.4%. The Committee continues to monitor investment manager performance and the effect of its Investment Strategy reviews from 2011 and 2012.

Delivering improved services for the membership has been the driver for Fund administration changes. The Pension's team was restructured in 2012 to ensure the availability of adequate skills and knowledge at the appropriate levels to allow the development of excellent customer service. An Imaging system was also implemented which will provide an electronic audit trail assisting the team to work more flexibly and efficiently. Electronic data transfers continue to be developed for large employers to improve the transfer and validation of data. Employer and employee communication continued with positive feedback being received for our Pension Clinics, members' presentations, Annual Benefit Statements and associated newsletters.

On 21 December 2012, the Department of Communities & Local Government published its first statutory consultation on the draft Local Government pension regulations for the new

LGPS scheme for England and Wales, due to take effect from 1 April 2014. At the time of writing a further statutory consultation has been issued covering in more detail the proposed changes to the regulations including the areas of fair deal, cost control and Transitional Regulations. As a consequence there is a substantial amount of work required on implementing and communicating the changes, working closely with all stakeholders in time for 1 April 2014.

The high level features of the new scheme have been known for sometime now with the key change being the move to a Career Average Re-valued Earnings (CARE) scheme and moving away from the current 1/60th accrual rate to a 1/49th basis. The other main changes will be the use of CPI as the revaluation factor for accrued benefits and the linking of the normal retirement age to that of the state pension, while for those members who are struggling to afford the current level of contributions a 50:50 option will exisit where half the benefits will be awarded for half the costs.

The future governance of the scheme continues to be the focus of attention for the Government with the recent ‘call for evidence’ on the future structure of the LGPS. Ministers believe that the current structure of 89 separate LGPS funds nationally is not sustainable as better returns and costs savings could be achieved using a different structure. The Wiltshire Pension Fund have already been taking steps to address these issues with the led taken on collaborative working with its neighbours and the setting up of procurement frameworks and this work will continue looking at further opportunities as funds come under more scrutiny in the coming months.

The results of the 2013 Triennial valuation are due in the autumn when employers contributions will be reviewed to establish ways of addressing the funding shortfall moving forward.

Tony Deane, Chairman
On behalf of the Wiltshire Pension Fund Committee
16 July 2013

2. Basic fund information

Statistics

Financial Summary

	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000
Contributions and Benefits					
Contributions receivable	82,894	84,975	86,210	87,770	77,083
Employers Additional Capital Contributions	0	0	0	0	0
Individual transfers	3,692	7,281	9,145	5,662	4,551
	86,586	92,256	95,355	93,432	81,634
Benefits payable	-55,994	-61,115	-61,418	-65,687	-68,351
Payments to and on account of leavers	-2,807	-9,065	-6,889	-4,039	-4,156
Administrative expenses	-1,215	-1,321	-1,343	-1,219	-1,722
	-60,016	-71,501	-69,650	-70,945	-74,229
Net additions from dealings with members	**26,570**	**20,755**	**25,705**	**22,487**	**7,405**
Returns on Investments					
Investment Income	34,142	26,846	27,691	31,095	24,774
Change in market value of investments	-290,820	276,140	70,903	9,884	120,124
Investment management expenses	-2,899	-2,359	-4,049	-5,465	-3,189
Net returns on investments	-259,577	300,627	94,545	35,514	141,709
Net increase in the fund during the year	**-233,007**	**321,382**	**120,250**	**58,001**	**149,114**

Membership Summary

	2008-09	2009-10	2010-11	2011-12	2012-13
Contributers	19,130	19,866	19,456	19,329	20,397
Pensioners and Dependents	10,066	10,737	11,343	12,227	12,856
Deferred Pensioners	15,366	16,640	17,883	19,701	20,843

Income (ie. contributions from employers and employees together with dividends and interest earned by investments, but excluding profits on sales of investments) has consistently exceeded expenditure. It is anticipated that the Fund will go Cashflow negative during 2013/14, this is being monitored closely.

The membership of the scheme at the beginning and end of the year and changes during the year are set out below:

Active Members

Active membership at start of year	**19,329**	**19,456**
New Entrants	55	3,468
Linked deferred members	0	37
Unfrozen actives	73	1
Leavers and exits during the year:	0	
Retirements	-457	-567
Death	962	-76
Deferred members	-1,998	-2,434
Refunds / Transfer outs / opt outs	2,013	-449
Other	216	-107
Active membership at end of year	**20,193**	**19,329**

Pensioners

In payment at start of year	**12,227**	**11,343**
New pensioners in year resulting from:		
Retirement of active members	458	652
Retirement of deferred members	373	391
Cessation of benefits	-320	-313
Other	141	154
In payment at end of year	**12,879**	**12,227**

Deferred members

At start of year	**19,701**	**17,883**
New deferred pensioners	1,998	2,434
Cessation of deferred pensions resulting from:	0	
Retirements	-373	-391
Linked to active records	0	-37
Full commutations	0	0
Transfers-out	-126	-166
Deaths	-24	-24
Other	2	2
At end of year	**21,178**	**19,701**

Participating employers at 31 March 2013

Scheduled/ Resolution bodies

Wiltshire Council
Swindon Borough Council
Wiltshire & Swindon Fire Authority
Wiltshire Police Authority
Wiltshire Probation Service
Amesbury Parish Council
Blunsdon St Andrews Parish Council
Bradford-on-Avon Town Council
Calne Town Council
Chippenham Town Council
Corsham Town Council
Cricklade Town Council
Devizes Town Council
Haydon Wick Parish Council
Highworth Town Council
Malmesbury Town Council
Marlborough Town Council
Melksham Town Council
Melksham Without Parish Council
Mere Parish Council
Purton Parish Council
Salisbury City Council
Stratton St Margaret Parish Council
Trowbridge Town Council
Wanborough Town Council
Warminster Town Council
Westbury Town Council
Wilton Town Council
Wootton Bassett Town Council
Wroughton Parish Council
Bishop Wordsworth Academy
Bybrook Valley Academy
Churchfield Academy
Colebrook Infants Academy
Collaborative Schools
Commonweal Academy
Corsham Primary Academy
Corsham Secondary Academy
Devizes Academy
Dorcan Technology Academy
Eastrop Infants Academy
Education Fellowship
Excalibur Academy
Goddards Park Academy
Gorse Hill Academy
Hardenhuish School Ltd
Highworth Warneford Academy
Holy Family Academy
Holy Rood Infants Academy
Holy Rood Junior Academy
Holy Trinity Calne Academy
Holy Trinity Devizes Academy
John Bentley Academy
John of Gaunt Academy
King William Academy
Kingdown Academy
Kingsdown Academy
Lavington Academy
Lethbridge Academy
Lydiard Academy
Malmesbury Academy
The Manor Academy
The Mead Primary Academy
New College
Pewsey Vale Academy
Ridgeway Academy
Rowde Academy
Sarum Academy
Sevenfields Academy
Sheldon Academy
South Wilts Grammar School
Southfield Junior Academy
Springfields Academy
St Augustine's School
St Catherine's Academy
St Edmund's Calne Academy
St Edmunds Girls Academy Salisbury
St Joseph's Academy Devizes
St Joseph's Academy Swindon
St Laurence Academy
St Leonard's Academy
St Mary's Swindon Academy
Swindon Academy
Swindon College
Wansdyke Academy
Wellington Academy
White Horse Academies
Wiltshire College
Woodford Valley Academy
Wootton Bassett School
4 Children

Admitted bodies

ABM Catering Ltd
Action for Blind People
Agincare
Aster Communities
Aster Group
Aster Living
Aster Property Management
Barnardos
Capita Business Services Ltd
Care & Support Swindon (SEQOL)
Caterlink
CIPFA
Community First
DC Leisure
Direct Cleaning
Elior UK
Enara
FCC Environment
Great Western Hospitals
Innovate Services
The Landscape Group
Leonard Cheshire
Mainline Contract Services
Norwest Holst (Vinci)
Oasis Operations
The Order Of St John Care Trust
Oxford Health NHS Trust
Oxfordshire Learning
Salisbury and South Wilts Museum
Selwood Housing
Somerset Care Ltd
Swindon Commercial Services
Swindon Dance
Visit Wiltshire
Westlea Housing Association
Wiltshire and Swindon Sports Partnership

3. Governance of the fund

Administering authority	Wiltshire Council County Hall Trowbridge Wiltshire BA14 8JN

Pension fund committee as at 31 March 2013

Wiltshire Council members	Councillor Tony Deane (Chairman) Councillor Charles Howard (Vice Chairman) Councillor Mark Packard Councillor Fleur de Rhe'-Philipe Councillor Sheila Parker
Swindon Borough Council members	Councillor Des Moffatt Councillor Peter Stoddart
Employee observers	Mike Pankiewicz – Wiltshire Council Tony Gravier – Swindon Unison Branch
Admitted bodies	Mr Tim Jackson – Westlea Housing Association
Education scheduled bodies	Ms Lynda Croft – Wiltshire College

Officers, advisors & managers at 31 March 2013

Wiltshire Council officers	Michael Hudson – Chief Finance Officer David Anthony – Head of Pensions
Investment managers	Baillie Gifford & Co CBRE Global Multi Manager Western Asset Management Co Ltd Edinburgh Partners Jubilee Advisors (formerly Fauchier Partners) Legal & General M&G Financing Fund Partners Group Barings Asset Management Berenberg Bank
AVC providers	Equitable Life Assurance Society Clerical Medical Funds NPI Funds Prudential
Investment consultant	Mercers
Actuary	Hymans Robertson
Independent adviser	Jim Edney, Independent Pension Fund Adviser
Auditor	KPMG LLP
Custodian	BNY Mellon
Legal adviser	Osborne Clarke

Policy documents

The Fund's Governance Policy Statement and its Communications Policy Statement are available upon request or can be viewed at www.wiltshirepensionfund.org.uk The Fund's Governance Compliance Statement can be viewed on page 9.

4. Governance compliance statement

AREA	PRINCIPLE	LEVEL OF COMPLIANCE	REASON FOR NON-COMPLIANCE
A) Structure	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**FULL – The Council's constitution (Part 3, para 2.5) says that the Committee will "exercise the functions of the Council as Administering Authority under the Local Government Superannuation Act and Regulations and deal with all matters relating thereto". The Wiltshire Pension Fund Committee has the power to "…make decisions on matters of significant policy…" (Part 3B, para 4).**	**N/A**
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**FULL – There are two voting representatives from Swindon Borough Council, two voting representatives from Admitted Bodies and 2 UNISON Observers (representing active, deferred and pensioner members), all of whom are members of the main committee.**	**N/A**
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**N/A – There is no secondary committee**	**N/A**
	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**N/A – There is no secondary committee**	**N/A**
B) Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary		

	committee structure. These include:		
	i. employing authorities (including non-scheme employers, eg, admitted bodies);	**FULL – four representatives in total, two from Swindon Borough and two from Admitted Bodies**	**N/A**
	ii. scheme members (including deferred and pensioner scheme members);	**FULL – two representatives from UNISON, who represent active, deferred and pensioner members**	**see A) b) above**
	iii. independent professional observers; and	**FULL – Our Independent Pension Adviser, who attends all meetings, fulfils this role and feeds back any observations to the Chief Finance Officer and/or Head of Pensions**	**N/A**
	iv. expert advisors (on an ad-hoc basis).	**FULL – Mercers (the Fund's Investment Consultant) attends all meetings where expert advice is required**	**N/A**
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**FULL – All members of the Committee are given equal access to papers, meetings and training and are able to fully participate in debates.**	**N/A**

C) Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**FULL – Full Induction Training and Governance is given and each member is given a Members' Handbook outlining their responsibilities amongst other information.**	**N/A**
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**FULL – this is a standard part of committee procedure.**	
D) Voting	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**FULL – The Committee has afforded each of its members voting rights, except the UNISON Observers who represent members. Being a statutory pension scheme, the local committee has very little influence over benefits and the members are fully protected by statute. Therefore, there is very little that scheme members (or their representatives) can influence on the committee that has any direct impact upon them. Further, giving voting rights to the observers would mean increasing the size of the Committee, because the Administering Authority must legally be able to maintain a majority.**	**N/A**
E) Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**FULL – There is a Members' Training Plan which is updated regularly and fully implemented. All members (including observers) have full access to all training opportunities and are allowed to claim all reasonable expenses.**	**N/A**
	b) That where such a policy exists, it applies equally to	**FULL – see Members Training Plan**	**N/A**

	all members of committees, sub-committees, advisory panels or any other form of secondary forum.		
F) Meetings - Frequency	a) That an administering authority's main committee or committees meet at least quarterly.	**FULL – The Committee meets five times per year, plus ad-hoc for special issues (eg. valuation, tenders)**	**N/A**
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**N/A – There is no secondary committee**	**N/A**
	c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**N/A – There is no secondary committee**	**N/A**
G) Access	a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**FULL – All members of the Committee (including non voting and substitute members) receive all the papers for every meeting, including the confidential ones**	**N/A**
H) Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**FULL – All matters in relation to the Fund, whether Benefits, Governance, Investments, Communications, Employers, Financial, etc, are covered by the governance arrangements.**	**N/A**
I) Publicity	a) That administering authorities have published details of their governance	**FULL – the Governance Compliance Statement is available on the**	**N/A**

	arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Wiltshire Pension Fund Website and in the Wiltshire Pension Fund Annual Report**	

Administration report

Recent developments

This year has again witnessed a relatively large number of admitted bodies and academies joining the Fund, bringing the total number of employers to over 104. It's anticipated the total number of employers will continue to increase over the next few years due to further outsourcings of services and schools converting to academy status.

One employer ceased its membership during this period.

The full list of employers can be seen on page 7.

During 2012-13 the following strategies and policies were approved by the Wiltshire Pension Fund Committee.

Statement of Investment Principles

This policy is updated annually and outlines the investment strategy the Wiltshire Pension Fund Committee has put in place to achieve its investment goals of trying to achieve relatively stable "real" returns above the rate of inflation over the long term, in such a way to minimise the level of contributions required to be paid into the Fund by employer bodies. Further information is provided in the Investment report.

All Local Government Pension Scheme (LGPS) funds have to produce publish a Statement of Investment Principles, the latest of which can be viewed at the following link:

www.wiltshirepensionfund.org.uk/investment-principles.

Treasury Management Strategy

This strategy was reviewed and approved in February 2013. The purpose is to outline the process and policies for the cash held by the Fund. Each month the Fund receives contributions and transfer in payments and pays out benefits and transfer out sums. The surplus is transferred on a monthly basis to the Fund's investment managers. A balance of between £1.5m to £2m is held by the Fund to manage short term cashflows.

The strategy aims to achieve the optimum return on the cash held commensurate with the high levels of security and liquidity required. These funds are invested separately from cash balances held by Wiltshire Council.

The latest strategy outlines the maximum limits for a single counterparty which is currently £6m. This limits the risk to a single counter party but is large enough to ensure that if one is removed at short notice the limit wouldn't be breached.

The strategy can be viewed on the Wiltshire Pension Fund website at the following link:

http://www.wiltshirepensionfund.org.uk/fund-information/treasury-management-strategy-wiltshire-pension-fund

Communications

The Fund continues to develop its communications to keep employers and employees updated with the latest changes affecting the scheme.

The Fund has continued with its normal publications to members which include the Annual Benefits Statements for active and deferred members; active members and pensioners newsletters, and where requested provide pre-retirement presentations and early retirement seminars.

The Fund has been working with employers and Unions to arrange seminars to update members on the changes to the scheme which are due to take place from April 2014. The Fund is also looking to continue its successful Pension Clinics in locations around Wiltshire during 2013-2014 as this provides members with the opportunity to book 1-1 appointments with a member of the Benefits Team to discuss issues regarding their individual pension records.

The Fund has also been developing both its members and pensioner newsletters which have been extremely well received with much positive feedback. This has enable the Fund to inform members of significant changes in areas such as changes to the pension tax relief regimes including annual and lifetime allowance.

The Fund's website is constantly updated and reviewed to ensure the latest information is available for members. This includes updated guides to the LGPS, new information regarding factor changes for ARCs and an updated calculator, and new information on how pension tax relief affects members along with relevant calculators. The News Update section of the website is constantly changing to reflect updates on the Government changes and any other relevant news affecting members.

The Fund's Communications Policy Statement outlines the provision of information and publicity about the Scheme to its members, representatives of members and employing authorities. The current policy was approved by the Committee in July 2011 and the full document can be viewed on the Wiltshire Pension Fund website at:-

http://www.wiltshirepensionfund.org.uk/communicationstrategy.pdf

AVC provider

Prudential is the Fund's current AVC provider. This facility allows members to, if they wish, top up their current LGPS pension provision by paying additional contributions into one of seven funds Prudential offer which best fit their risk profile. Members still making contributions to the closed schemes run by Clerical Medical, Equitable Life and NPI are able to continue paying into these funds or can decide to transfer their accumulated benefits into one of the new Prudential funds.

Prudential are available and always willing, on request from employers, to present to its employees to promote their services and provide further information on certain pension topics such as pension tax relief.

Management of the scheme

The members who served on the Wiltshire Pension Fund committee during the year are listed on page 9.

The Wiltshire Pension Fund Committee has nine voting members. This consists of five Wiltshire Council members which includes the Chairman, two members from Swindon Borough Council as the second largest employer with two employer representatives.

The two Unison representatives observe on behalf of the employees, deferred, and pensioner members' within the scheme to ensure their interests are considered at the Committee.

The Committee met five times last year for regular business and once for a special item. All decisions are taken by a simple majority with the Chairman having the casting vote.

Employer issues

The Wiltshire Pension Fund employ an Employer Relationship Manager (Andy Cunningham) whose role is to act as an advocate for employers and help foster relationships.

There is also an Employers' Guide available, including details of the Fund's discretions policy which can be found on the Fund's website. This can be used as a substantive source of employer information, along with the regular technical newsletters and "Pensions Liaison Officers Group (PLOG)" meetings that are available for employers.

Due to the increasing amounts of and complexity of employer movements, under the backdrop of a challenging economic environment, the Fund now has policies in respect of its approach to new employers, in particular academies. The purpose of such policies are to ensure that the Fund is treating new & existing employers in a fair and reasonable way as well as protecting the interests of the Fund and its current employers. Further details of these policies and guidance can be found on the Wiltshire Pension Fund website at the following address:

http://www.wiltshirepensionfund.org.uk/employer-admitted-body.htm

Operational improvements

The Fund continually strives to improve its processes and performance to improve the customer experience for its members (e.g. improved response times, more understandable forms, clearer letters, etc). This is an on-going process with incremental changes being implemented each year.

Following on from the introduction of a workflow task management tool last year, the Fund has now moved to an electronic imaging filing system which means all post and paperwork in relation to the administration work is scanned into the pension database. This both improves the data handling when processing work and enables better visibility of the stage each case has reached. It also assists in reducing the use of paper within the office. Work continues to with the employers submission of data to the Fund electronically which is assisting in reducing processing times for certain areas of administration.

In 2012 the pension team undertook a restructure that ensures the service has the required knowledge and experience in the key areas and to the team is now better equipped to address the multitude of forthcoming changes over the next two years, in particularly the implementation of the LGPS 2014 reforms.

Pension increase

Pensions in payment were increased by 2.2 percent effective from 6 April 2013 in line with the Consumer Price Index (CPI) as at September the previous year. Pensions commencing in the 12 months preceding 6 April 2012 have received an increase based on the 2.2 percent pro-rated for the length of time the pension has been in payment to 6 April 2013.

The pension increases referred to above do not apply to that element of the pensions in payment representing any Guaranteed Minimum Pensions (GMP), which the scheme is required to provide as a consequence of contracting out of the State pension arrangements for the LGPS, as these increases are provided by the State.

GMPs relate to service accrued from April 1978 to April 1997, when contracting out arrangements were changed and GMP ceased to apply.

GMP earned between April 1988 and April 1997 is increased by the Scheme in line with inflation, as required by legislation, up to a maximum of 3 percent per annum. There is no increase paid by the scheme for GMP earned between April 1978 and April 1988. Increases in relation to the GMP for this period are calculated and paid by the Government with increases in the state pension.

All increases were in accordance the LGPS regulations or legislative requirements.

Where next for the Local Government Pension Scheme?

Since the publication of the Independent Public Service Pensions Commission review of all public sector pensions (Hutton Review) in 10 March 2011 the Government, Local Government Association (LGA) and unions having been in negotiations on how to reform the LGPS to implement the recommendations outlined.

The 'deal' outlined in the recommendations included the need for public service workers to receive a good pension in retirement; to keep a defined benefit scheme; to protect accrued rights, to allow a fair process of change and ensuring better management of schemes.

For the taxpayer he promised a fairer sharing of the benefit from living longer between the taxpayer and the member; to future proof the scheme; to establish a fixed cost for employers; to provide greater transparency of costs; and to have a single legal framework for public sector pensions.

The LGA and unions announced on 31 May 2012 the outcome of their negotiations regarding the 'Big ticket' items for the new LGPS proposals for England and Wales, due to take effect from 1 April 2014.

These changes will apply from April 2014 but all pensions in payment or built up before this date will be protected. Members that are in receipt of a pension or have left with deferred benefits will not be affected by these changes, all members currently contributing will have all pre 2014 benefits accrued protected and based on a final salary scheme and will also retain the current Normal Pension Age.

Unions and the LGA consulted their members during the summer of 2012 over the proposals and following a positive response the Government has now moved directly to a statutory consultation which is now taking place over the summer of 2013.

The main provisions proposed LGPS 2014 are:

1. A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor – the current is a Final Salary scheme.

2. An accrual rate of 1/49th – the current is a 1/60th scheme

3. There would no longer be a Normal Retirement Age (NRA). Instead each individual member's retirement date would be the same as their State Pension Age (SPA) – the current scheme has a NRA of 65

4. Average member contributions would remain the same at 6.5% but the rate would be determined on actual pay – the current scheme determines part-time contribution rates on full time equivalent pay. Although there would be no change to average contributions, the lower paid will pay the same or less and the higher paid will pay higher contributions on a more progressive scale after tax relief

5. Members that have, or are, considering opting out of the scheme can elect to pay half contributions for half the pension while still retaining full value of other benefits. This will be known as the 50/50 option. Members can opt back into the main scheme at any time and this option will be seen as a short term solution and members will be opted back into the scheme under the new auto-enrolment provisions.

6. For current scheme members benefits accrued prior to April 2014 will be protected including any outstanding 'Rule of 85' protection. Protected pre 2014 service will continue to be based on Final Salary and the current NRA.

7. Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers – currently this is at the discretion of the employer.

All other benefits remain as in the current scheme, namely death in service grant, spouses' pensions and ill health provision. Future scheme costs will be monitored and controlled to ensure stability and affordability of the LGPS.

The timeline for implementing the necessary changes to the LGPS 2014 regulations remains extremely challenging and the Fund is working with its software providers and speaking to employers in regards to the potential changes to systems and data submission required.

A communication strategy is in place and information, presentation and literature will be communicated to the active membership over the coming months.

The latest information and updates received can be viewed at the following address on the Wiltshire Pension Fund website:

http://www.wiltshirepensionfund.org.uk/news-update.htm

Automatic Enrolment

The timescales for the implementation of Automatic Enrolement has now commenced. Employers need to be aware of their increasing responsibility from the implementation of auto-enrolment. Under auto-enrolment the employer must enrol all eligible employees into a compliant scheme at least once every three years and maintain records of having done this. The implementation of this is being phased in over the next five years depending on the size of employer. The first staging date was October 2012.

Although the implementation isn't the Wiltshire Pension Fund's responsibility, we can, where possible offer guidance and support for employers in relation to their implementation and direct them to relevant sources of information.

More information has been provided to employers within our technical updates but please do contact the Pension Fund if you have any further queries.

Collaboration

Local Government Pinions Schemes are currently under more and more scrutiny to ensure they are maximising the cost effectiveness of resources while increasing the quality of their services.

The Fund has now for a number of years worked closely with its peer LGPS funds in the South West to try and raise standards, improve knowledge levels, share costs and make costs savings from working together on procurement exercises. This has seen the setting up of frameworks for legal, actuarial, benefits and investment advisers which has reduced procurement processes and allowed funds to benefit from reduced costs. The Fund will continue to work with partners to explore see other areas for collaboration which can lead to improved service delivery moving forward.

Other matters

The Fund continues to support its employers by co-ordinating the provision of FRS17 accounting reports from the actuary, so that they can meet their obligations to show their pension liabilities relative to their pension assets in their annual accounts.

6. Training report

Approach

As an administering authority of the Local Government Pension Scheme, this council recognises the importance of ensuring that all staff and members of the Pension Fund Committee charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The Fund will provide and arranges training for staff and members of the pension committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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

The Director of Finance is responsible for ensuring that these training plans and strategies are implemented.

Recent Developments

The promotion of good governance in the public sector decision making bodies has been led by CIPFA and SOLACE over recent years. In light of this work and that of the Department for Communities and Local Government, specific guidance has led to the requirement for pension funds to produce governance statements and encouragement to follow best practices identified from various studies.

This initiative has been developed further with CIPFA producing guidance on the knowledge and skills elected representatives and fund officers need to have when involved in the work of the Pension Fund committee. These link to the Myners principles on best practice in managing investment funds.

In particular, Principle 1 'effective decision making' states:

Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor implementation; and

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

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

This Members Training Plan is reviewed and updated on a rolling basis, to ensure its aligned to the Fund's medium term priorities, in line with the recommended practice.

Assessments & Training Undertaken

Members of the Committee

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

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

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

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

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

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

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

The Members Training Plan for 2011-13 approved by the Committee on 2 December 2010 is outlined at the end of this section.

Officers to the Pension Fund Committee

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

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

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

Michael Hudson
Director of Finance
15 July 2013

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

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

TRAINING NEED	PROPOSED DELIVERY METHODS: Member's Handbook	Members' Briefing Notes (Electronic)	Short Seminars (before Committee meeting)	Internal Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (eg. Webcasts, Videos)	One-to-One Briefing with an officer	COMPLETION TARGET DATE
GENERAL TRAINING								
General overview of LGPS	✓							Completed
Members' individual needs on specific areas arising during the year		✓			✓	✓	✓	As required - notify Head of Pensions
Specific items on committee agendas		✓	✓					As required
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework								
• LGPS discretions & policies			✓					Completed
• Implications of the Hutton Review		✓		✓	✓			Note sent March 2011 / May 2012
Pensions Legislation & Governance:								
• Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme		✓		✓				30-Apr-12
• Review of Myners principles and associated CIPFA & SOLACE guidance		✓		✓				30-Apr-12
Pension Accounting & Auditing standards:								
• Accounts & Audit regulations and the legislative requirements			✓					Completed Nov 11
Financial Services procurement:								
• Current public procurement policy & procedures				✓				Completed Nov 11
• UK & EU procurement legislation				✓				Completed Nov 11
Investment Performance & Risk Management:					✓			Invite to be circulated to relevant ones
• Monitoring asset returns relative to liabilities				✓				31-Oct-12
• Myners principles of performance management				✓				31-Oct-12
• Setting targets for committee and how to report against them				✓				31-Oct-12
Financial markets & products knowledge:								
• Refresh the importance of setting investment strategy			✓					Completed May 12
• Limits placed by regulation on investment activities in the LGPS				✓				
• Understanding of the operations of the fixed income manager					✓			Visited WAM Jan 2011
• Understanding of Alternative asset classes				✓				Completed June 2011

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

7. Investment report

Funding policy

The basic objective of LGPS pension fund investment is to minimise the level of contributions paid into the Fund by employer bodies to ensure its solvency. Therefore, investment strategy is necessarily intrinsically linked with funding policy.

All LGPS funds are required to publish a document called a "Funding Strategy Statement" (FSS). The Wiltshire FSS was updated in connection with the 2010 triennial valuation and can be supplied upon request or viewed at :-

www.wiltshirepensionfund.org.uk/fundingstrategy.pdf

The former Office of the Deputy Prime Minister (ODPM) defined the purpose of the FSS as being:

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

b) *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*

c) *to take a prudent longer-term view of funding those liabilities."*

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

Therefore, the best that can be achieved is a sensible balance between low and stable employer contributions over the long term, accepting that triennial valuations are likely to lead to greater volatility if higher equity investment strategies are in place.

Investment goal

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

Investment strategy

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

a) a relatively large allocation to equity investment to achieve higher returns;

b) allocations to more diversified and less correlated asset classes such as bonds, property, infrastructure and absolute return products to achieve stabilisation; and

c) the achievement of some "alpha" (manager) returns independently of "beta" (market) returns, through high alpha equity strategies.

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a Statement of Investment Principles (SIP) – the latest Wiltshire Fund's SIP can be supplied upon request or viewed at :-

www.wiltshirepensionfund.org.uk/investment-principles.

Investment powers

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which provide wide investment powers, subject to certain restrictions. The current limits are as follows

(a) No more than 10% deposited with a single bank (other than the National Savings Bank).

(b) No more than 15% invested in unlisted securities.

(c) No more than 10% in a single holding (except unit trusts).

(d) No more than 35% in unit trusts or other collective investment schemes managed by any one body.

(e) No more than 35% in a single insurance contract.

Regulations further state that administering authorities must obtain and consider proper advice on their investments, and formulate their investment policy with a view to:

(a) the advisability of investing fund money in a wide variety of investments;

(b) the suitability of particular investments and types of investments; and

(c) the extent to which the administering authority complies with the revised six Myners principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replaces the ten Myners principles published in 2001.

Strategic asset allocation

The Committee regularly reviews the Fund's investment management arrangements. A strategy review was undertaken during the summer 2011. These changes were implemented during 2012/13. The Pension Fund Committee also resolved to make further changes to the strategic allocation resulting from the termination two managers at the February 2013 Committee meeting. In broad terms, at 31 March 2013 the Fund's strategic allocation was to be invested 60% in Equities, 15.5% in Bonds, 13% in Property and 11.5% in Alternatives. More details are given in the section below summarising the Fund's investment management arrangements.

Risk control

The Committee believes that risk control is primarily achieved by the Fund's strategic asset allocation, and this has been taken into account in setting its overall investment strategy.

Environmental social governance policy

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting to Pensions & Investment Research Consultants Limited (PIRC) who provide a global proxy service for the Fund using PIRC Shareholder Voting Guidelines that are approved by the Fund. The Fund receives proxy research and voting recommendations for each company AGM and EGM holding the Fund has that can be voted.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act collectively with other local authorities on corporate governance issues. The Forum currently has 56 member funds with assets of more than £115 billion.

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

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

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

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

Investment management arrangements

In the summer of 2011 a review of the current investment arrangements was commenced in light of investment managers' performance. Key themes surrounding asset allocation were considered including return generation, inflation protection, nimbleness and illiquidity/Cashflow management. The strategic asset allocation of the Fund changed a little as a result however a number of new manager searches followed from the review.
The Committee resolved:

- an aspiration to move the Fund's equities split to 30% UK/70% overseas as opportunities arise from changes in the equities mandates;
- to remove the 12.5% limit for new investment mandates and to set a limit of 20% for a single active manager and 30% for a passive manager;
- to implement a dynamic currency hedging programme;
- to make a strategic allocation of 10% to an Absolute Return Fund Mandate;
- to make a strategic allocation of 5% to an Infrastructure manager;
- to make a strategic allocation of 5% to a global equities passive 'fundamental' index product;
- to hold a passive global equities allocation of 10% on a temporary basis;

These changes were implemented during 2012/13.

At the February/June 2013 Committee meetings further changes were made to the strategic allocation moving forward. These would be implemented in the coming months.

At the February/June 2013 meeting the Committee resolved:

- to terminate the Edinburgh Partners mandate (7.5% of the Funds assets and place these assets in the Fundamental Indexation mandate (with L&G);

- to agree a strategic allocation of 10% to an Emerging market Equity/Debt product for the funds placed temporarily with Legal & General (Passive Global Equities) and for officers to commence the appropriate procurement process to enable a suitable manager to be appointed by the Committee;

- to terminate the Jubilee Advisers (formally Fauchier Partners) mandate (5% of the Fund's assets) and place these assets temporarily with Legal & General (Passive Global Equities) mandate; and

- to agree up to a 5% initial allocation for the purpose of Opportunistic Investing.

This means the Fund's asset allocation will change as follows:

Asset Allocation	**At 31 March 2013**	**Moving Forward**
Equities: Long-Only UK* Overseas (Global)** Absolute Return (Lower Volatility) Emerging Market Multi Asset	 12.5% 37.5% 10.0% 0.0% 60.0%	 12.5% 27.5% 10.0% 10.0% 60.0%
Bonds	15.5%	15.5%
Property	13.0%	13.0%
Alternatives: Long-short Equities – Global Infrastructure M&G Financing Fund Opportunistic Investment	 5.0% 5.0% 1.5% 0.0% 11.5%	 0.0% 5.0% 1.5% 5.0% 11.5%
	100.0%	100.0%

* (sits at approximately 15.5% moving to 14.7% if including the UK element of the global mandates)
** (includes active, and fundamental indexation)

The allocation of mandates to managers is as follows:

MANAGER/MANDATE ALLOCATION	**At 31 March 2013**	**Moving Forward**
Baillie Gifford Global Equities	 15.0%	 15.0%
Legal & General Passive UK Equities Passive Global Equities Passive Fundamental Equities Passive Index-Linked Bonds (UK)	 12.5% 10.0% 5.0% 5.0%	 12.5% 0.0% 12.5% 5.0%
Barings Absolute Return Fund	 10.0%	 10.0%
Western Asset Management Corporate Bonds (UK & Overseas)	 10.5%	 10.5%
Emerging Market Multi Asset Mandate	0.0%	10.0%
CBRE Global Multi Manager Property Fund of Funds (UK & Europe)	 13.0%	 13.0%
Edinburgh Partners Global Equities	 7.5%	 0.0%

Jubilee Advisors Equity Long-Short Fund of Funds (Global)	5.0%	0.0%
Partners Group Infrastructure	5.0%	5.0%
M&G Investment Management UK Companies Financing Fund	1.5%	1.5%
Opportunistic Investment	0.0%	5.0%
TOTAL	**100.0%**	**100.0%**

Investment as at 31 March 2013

During the year, the managers transacted purchases of £1,325.6 million (£662.7m 31 March 2012) and sales of £1,293.4million (£620.8m 31 March 2012). The value of assets under management at 31 March 2013 was £1,480.5 million (£1,328.2m 31 March 2012), broken down by managers as follows:

Legal & General	£546.2 million
Baillie Gifford	£227.9 million
Western Asset Management	£173.7 million
CBRE Global Multi Manager	£162.8 million
Barings Asset Management	£150.8 million
Edinburgh Partners	£120.8 million
Jubilee Advisors (Formally Fauchier Partners)	£75.4 million
M&G Financing Fund	£ 11.4 million
Berenberg Bank	£ 7.5 million
Partners Group	£ 3.8 million
Capital International	£ 0.2 million
	£1,480.5 million

The Fund participates in a securities lending programme administered by BNY Mellon. As at the 31 March 2013 there were no stocks on loan and therefore no collateral held. Income earned from this programme during 2012-13 amounted to £0.056 million.

Investment markets

Investment markets had a generally positive year (to 31 March 2013) with many risk assets (including equities) delivering double digit returns and other lower risk assets, such as corporate bonds and gilts, also providing strong returns. This was despite a back drop of any meaningful and consistent improvement in economic fundamentals, but reflected a more upbeat mood for investors more generally.

In light of the seemingly concerted effort from the US, UK, Japanese and European Central Banks to use quantitative easing to avoid an illiquidity crisis, concerns over a systematic failure of financial markets appear to have receded. The global economic background remained largely unchanged, with data suggesting a sluggish growth and, at best, a slow grinding recovery. Consensus economic forecasts marginally fell, with 2.6% real global GDP growth expected in 2013. (Source: Consensus Economic April 2013)

Significant divergence in economic growth was seen in different regions. With the conclusion of the US Presidential Election in November 2012 and the deal on fiscal cliff being reached by the US congress at the start of 2013, the forecast on the US economic growth had been somewhat more positive than the other developed markets albeit slow and cautious. The recovery in the UK continued to falter with Moody's downgrade of the UK Credit rating to Aa1 in February 2013. The significant depreciation of sterling against the US dollar and the Euro over the first quarter of 2013 highlighted the continued concerns over the weakness of the UK economy and its future growth prospects. As the Euro area officially fell back in recession in the second half of 2012, Germany managed to avoid recession and continued to post relatively strong growth compared to Italy and Spain. More recently, the uncertainty of the Italian election and the botched ECB rescue of Cyprus once again weighted on the concerns over the Euro.

The emerging markets continued to be a major engine of global economic growth. However, stock markets remained concerned over the slower than expected growth in China as export demand for Europe declined, although this may be seen in hindsight as a helpful cooling-off process.

Fee structures

The Committee generally expects to have an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice and is easily understood. A performance related fee basis is sometimes set, if it is believed to be in the overall financial interests of the Fund. For investment advisory services, the fee for specified services is set as agreed by the South West Framework Contract or at agreed hourly rates.

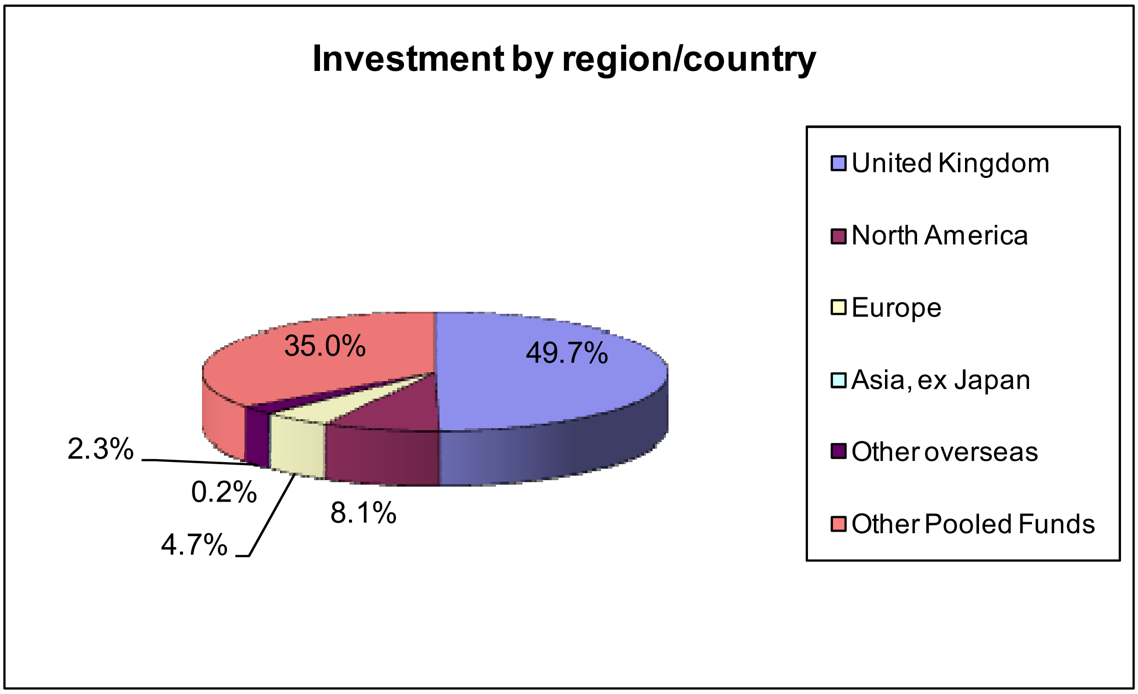
Other matters

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

Distribution of investments

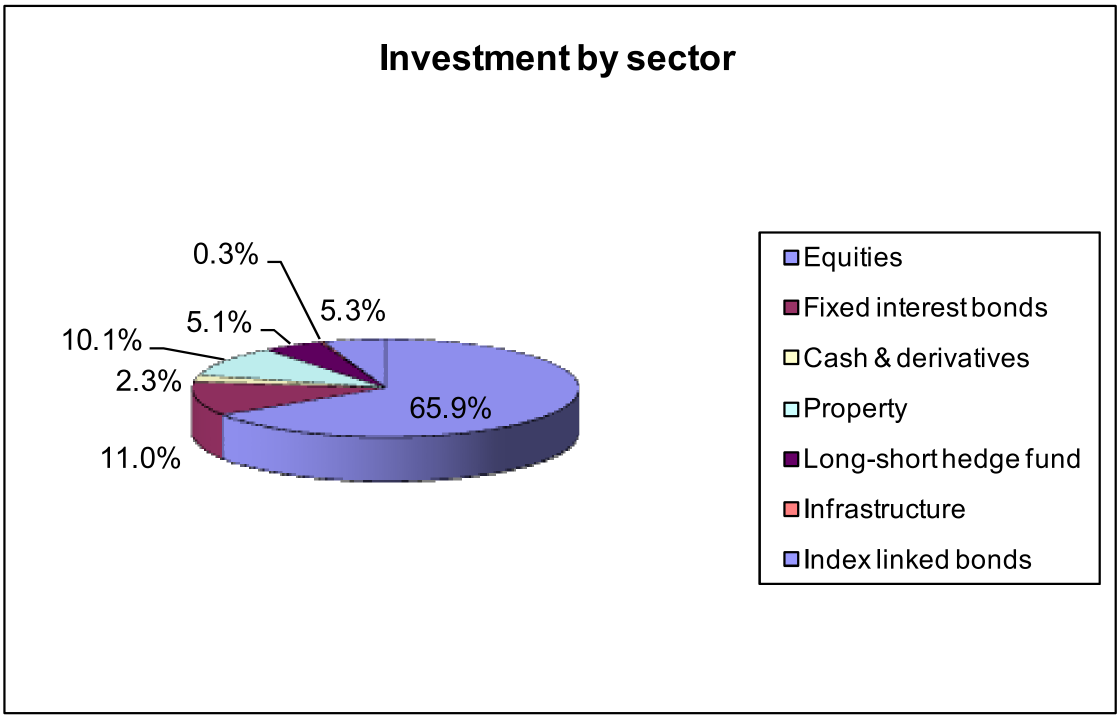
Analysis of investments as at 31 March 2013

Geographical analysis	£000	% of Fund total
United Kingdom	736,106	49.7
North America	120,074	8.1
Europe	68,973	4.7
Asia, ex Japan	2,707	0.2
Other overseas	33,667	2.3
Other Pooled Funds	518,961	35.0
	1,480,488	**100.00**



Analysis of investments by sector as at 31 March 2013

Sector analysis	£000	% of Fund total
Equities	975,477	65.9
Fixed interest bonds	163,184	11.0
Cash & derivatives	33,877	2.3
Property	149,468	10.1
Long-short hedge fund	75,364	5.1
Infrastructure	3,808	0.3
Index linked bonds	79,310	5.3
	1,480,488	**100.00**



Twenty largest holdings at 31 March 2013

		£000	% of Fund total
1	Legal & General Equity Index Fund	219,821	14.85
2	Legal & General World Equity Index	164,554	11.11
3	Barings Alpha Funds - Dynamic Asset Allocation Fund	150,774	10.18
4	Edinburgh Partners Global Opportunities Equity Fund	118,675	8.02
5	Jubilee Absolute Equity Fund	75,364	5.09
6	Amazon.Com Inc Com	21,249	1.44
7	M&G Secured Property Income Fund	18,107	1.22
8	Blackrock UK Property Fund	15,470	1.04
9	PPR EUR 4.00	14,187	0.96
10	Industria De Diseno Textil	13,213	0.89
11	Tencent Holdings Ltd	12,785	0.86
12	Baidu Inc	12,554	0.85
13	Google Inc	11,895	0.80
14	Henderson UK Shopping Centre	11,423	0.77
15	Prudential/M&G Companies Financing Fund	11,349	0.77
16	Apple Inc	11,273	0.76
17	Intuitive Surgical Inc	11,021	0.74
18	Schroders GBP	11,010	0.74
19	Ebay Inc	10,760	0.73
20	Atlas Copco	10,700	0.72
		926,184	**62.6**

8. Actuarial position

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the latest Wiltshire Council Funding Strategy Statement (FSS), dated September 2011. In summary, the key funding principles are as follows:

- to achieve a funding level of 100%, both at the whole Fund level and for the share attributable to individual employers, with 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 costs 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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,167 million, were sufficient to meet 74.6% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £396 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Methods used to value the liabilities

Full details of the methods and assumptions used are described in the actuary's report dated 25 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial Assumptions	**Rate at 31 March 2010**	
	Nominal	**Real**
Discount rate	6.1%	2.8%
Pay increase	5.3%	2.0%
Price Inflation/Pension increases	3.3%	0.0%

**plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.*

The key demographic assumption was the allowance made for longevity. As a member of the Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	21.3 years	23.6 years
Future Pensioners	23.3 years	25.5 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Wiltshire Council administering authority to the Fund.

Experience over the year since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) has worsened since the 2010 valuation due to falling real bond yields.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy statement will also be reviewed at that time.

Prepared by:-

Catherine McFadyen

23 May 2013

For and on behalf of Hymans Robertson LLP

9. Audit opinion

TO BE ADDED

10. Statement of accounts

Fund Account

For the year ended 31 March 2013

	Notes	2012-13 £000	2011-12 £000
Contributions and benefits			
Contributions receivable	5	77,083	87,770
Individual transfers		4,551	5,662
		81,634	**93,432**
Benefits payable	6	-68,351	-65,687
Payments to and on account of leavers	7	-4,156	-4,039
Administrative expenses	8	-1,722	-1,219
		-74,229	**-70,945**
Net additions from dealings with members		**7,405**	**22,487**
Returns on investments			
Investment income	9	24,774	31,095
Change in market value of investments	11	*120,124*	9,884
Investment management expenses	12	-3,189	-5,465
Net returns on investments		**141,709**	**35,514**
Net increase in the fund during the year		**149,114**	**58,001**
Add opening net assets of the funds restated		1,344,799	1,286,798
Closing net assets of the scheme		**1,493,913**	**1,344,799**

Net Asset Statement

At 31 March 2013

	Notes	31-Mar-13 £000	31-Mar-12 £000
Investment assets	11		
Fixed interest securities		162,030	144,117
Index linked securities		2,435	627
Equities		236,695	426,513
Pooled investment vehicles		895,984	546,157
Property		149,468	154,161
Derivative assets		1,871	6,957
Cash held on deposit		29,809	46,805
Other investment balances		3,509	4,466
		1,481,801	**1,329,803**
Investment liabilities	11		
Derivatives liabilities		-1,313	-1,619
Total net investments		**1,480,488**	**1,328,184**
Current assets	13	15,797	18,109
Current liabilities	14	-2,372	-1,494
Net assets of the scheme at 31 March		**1,493,913**	**1,344,799**

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of Wiltshire Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statements and these accounts should be read in conjunction with these.

Notes

Forming part of the accounts

1. Basis of preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

IAS26 requires the actuarial present value of promised benefits to be disclosed. A separate report has been prepared by Hymans Robertson and is enclosed on page 59. The Chancellor's budget statement on 22 June 2010 declared that future pension increases should be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The report on page 59 has been prepared on the CPI basis.

The accounts have been prepared on an accruals basis except where otherwise stated, i.e. income and expenditure is accounted for as it is earned or incurred, rather than as it is received and paid.

2. Accounting policies

The principal accounting policies of the Fund are as follows:

Contributions

Contributions are received from employer bodies in respect of their own and their pensionable employees' contributions. Employers' contributions (for both Normal and Deficit Funding) are prescribed in the Actuary's Rates and Adjustment Certificate following the review of the Fund's assets and liabilities during the triennial valuation. The Employees' contributions are included at the rates prescribed by the Local Government Pension Scheme Regulations.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.

Benefits and refund of contributions

The benefits payable and refunds of contributions have been brought into account on the basis of all valid claims approved during the year.

Transfers to and from other schemes

No account is taken of liabilities to pay pensions and other benefits after the year end. Transfer values, which are those sums paid to, or received from, other pension schemes relating to previous periods of employment, have been brought into account on a cash basis.

Investment income

Dividends, interest and coupon receipts have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of units.

Valuation of investments

Investments are shown in the accounts at market value, determined on the following basis:

(i) **Quoted securities**

Quoted Securities have been valued at 31 March 2013 by the Fund's custodian using the bid price where a quotation was available on a recognised stock exchange or unlisted securities market.

(ii) **Unquoted securities**

Unquoted securities have been valued according to the latest trades, professional valuation, asset values or other appropriate financial information.

(iii) **Pooled investment vehicles**

Pooled investments are stated at bid price for funds with bid/offer spreads, or single price/net asset value where there are no bid/offer spreads, as provided by the investment manager.

(iv) **Fixed interest stocks**

Fixed interest stocks are valued on a clean basis. Accrued income is accounted for within investment income.

(v) **Derivative contracts**

Derivatives are stated at market value. Exchange traded derivatives are stated at market values determined using quoted prices. For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

- Over the Counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year end date.

- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

Reported changes in the market value of investments over the year of account include realised gains or losses arising upon the disposal of investments during the year.

Foreign currency translation
All investments held in foreign currencies are shown at market value translated into sterling using the WM 4PM rate on 31 March 2013.

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transactions, by applying the relevant exchange rate ruling at the time. Where overseas securities are acquired with currency either previously purchased directly or accruing from the sale of securities, the sterling book cost of the new security will be based on the exchange rate ruling at the time of the purchase of that security. Any profit or loss arising on currency transactions either realised or unrealised, will be reflected in the Net Asset Statement.

Investment management expenses
Investment management expenses are based on the quarter end market value of the investments held. The fees paid are determined by the agreed fee scales for each individual manager.

Acquisition costs of investments
Transaction costs are charged as part of investment management expenses. These include costs charged directly to the fund such as fees, commissions, stamp duty and other fees.

Administration expenses
A proportion of the relevant officers' salaries, salary on-costs and general overheads, have been charged to the Fund on the basis of time spent on Fund administration.

Taxation
The Fund is a registered pension scheme for tax purposes and as such is not liable for UK income tax on investment income, nor capital gains tax. As Wiltshire Council is the administering authority, VAT input tax is recoverable on all expenditure.

Income earned from investments in stocks and securities in the USA is exempt from US tax and is not subject to withholding tax. Most tax deducted from income on European investments is also recoverable.

Additional Voluntary Contributions (AVCs)
The accounts of the Fund in accordance with regulation 5 (2) (C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include transactions in respect of AVCs. These are money purchase arrangements made by individual Fund members under the umbrella of the Local Government Pension Scheme, to enhance pension benefits.

3. Critical Judgement in Applying Accounting Policies

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the actuarial position statement (on page 32). This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net asset statement at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Debtors	At 31 March 2012, the fund had a balance of £15.8m for debtors (£6.8m relate to a long term debtor). A review of significant balances suggested that no impairment is currently necessary. However, in the current economic climate, it is not certain that all debts will be paid.	If collection rates deteriorate it may be necessary for an allowance to be included in the accounts for doubtful debts.
Hedge Fund of Funds	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £75.4m. There is a risk that this investment may be under or overstated in the accounts. Using the volatility data provided by the Fund's investment advisor the fund of funds valuation may be over/understated by £8.2m.

5. Contributions receivable

	2012-13 £000	2011-12 £000
Employer		
- Normal	46,169	46,229
- Augmentation	2,080	1,827
- Deficit funding*	11,122	21,453
Members		
- Normal	17,448	17,936
- Additional contributions	264	325
	77,083	**87,770**

Analysis of contributions receivable

	2011-12 £000	2011-12 £000
Contributions from employees (Including Additional Contributions)		
- Wiltshire Council	7,610	8,185
- Other scheduled bodies	8,075	8,058
- Admitted bodies	2,027	2,018
	17,712	**18,261**
Contributions from employers (Including Augmentations)		
- Wiltshire Council	26,099	27,017
- Other scheduled bodies	25,481	35,413
- Admitted bodies	7,791	7,079
	59,371	**69,509**
Total contributions receivable	**77,083**	**87,770**

* Deficit funding contributions are being paid by the employer for the three years commencing from 1 April 2011 as specified in the Rates and Adjustment certificate dated 25 March 2011 in order to improve the Fund's funding position. The recovery period at the last valuation over which the deficit funding is recovered is mainly 20 years for scheduled bodies and 14 years or the length of the employer's contract (whichever is the shorter) for admitted bodies.

6. Benefits payable

6. Benefits Payable

	2012-13 £000	2011-12 £000
Pensions	55,875	51,633
Commutation and lump sum retirement benefits	11,549	12,664
Lump sum death benefits	927	1,390
	68,351	**65,687**

Analysis of benefits payable	**2012-13 £000**	**2011-12 £000**
Pensions payable		
- Wiltshire Council	30,558	28,627
- Other scheduled bodies	21,120	19,389
- Admitted bodies	4,197	3,617
	55,875	**51,633**
Retirement and Death grants payable		
- Wiltshire Council	4,847	6,368
- Other scheduled bodies	5,241	5,264
- Admitted bodies	2,388	2,422
	12,476	**14,054**
Total benefits payable	**68,351**	**65,687**

7. Payments to and on account of leavers

	2012-13 £000	2011-12 £000
Individual transfer out to other schemes	4,154	4,031
Refunds to members leaving service	6	20
State Scheme Premiums	-4	-12
	4,156	**4,039**

8. Administrative expenses

	2012-13 £000	2011-12 £000
Administration and processing	1,397	932
Actuarial fees	196	215
Audit fees	71	49
Legal and other professional fees	58	23
	1,722	**1,219**

9. Investment income

	2012-13 £000	2011-12 £000
Quoted securities		
- UK fixed interest bonds (coupon receipts)	8,061	7,655
- Overseas fixed interest bonds (coupon receipts)	40	139
- UK index linked bonds (coupon receipts)	16	26
- UK equities	370	1,763
- Overseas equities	4,791	7,826
Pooled investment vehicles		
- UK equities	-	-
- Overseas equities	2,713	3,883
- UK fixed interest corporate bonds	-	756
- Overseas fixed interest bonds	-	360
- UK property	8,615	8,425
- Venture Capital	39	
Cash held on deposit		
- Sterling cash	129	256
- Overseas cash	-	6
	24,774	**31,095**

10. Stock lending

The Council participates in a securities lending programme administered by BNY Mellon. As at the 31 March 2013 there were no stocks on loan and therefore no collateral held. Income earned from this programme during 2012-13 amounted to £0.056 million.

	2012-13 £m	2011-12 £m
WC securities on loan	0.0	10.2
(percentage of total)	0.0%	0.8%
WC collateral share of pool	0.00%	0.07%
Value of WC pooled share	0.0	10.8
Percentage of secuities on loan	0.0%	106.1%
Income earned in year	0.056	0.121

11. Investments

Reconciliation of investments held at beginning and end of year

	Value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market Value	Value at 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	144,117	39,286	-34,478	13,105	162,030
Index linked securities	627	2,975	-1,226	59	2,435
Equities	426,513	429,346	-621,460	2,296	236,695
Pooled funds					
- Other	546,157	398,926	-163,331	114,232	895,984
- Property	154,161	27,592	-27,893	-4,392	149,468
Derivative assets					
- Futures	-330	2,536	-2,298	-294	-386
- Options	0	0	0	0	0
- Forward FX	5,668	49,921	-48,753	-5,892	944
	1,276,913	**950,582**	**-899,439**	**119,114**	**1,447,170**
Cash deposits	46,805	374,990	-392,990	1,004	29,809
Other Investment balance	4,466	0	-963	6	3,509
	1,328,184	**1,325,572**	**-1,293,392**	**120,124**	**1,480,488**

	Value at 1 April 2011	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market Value	Value at 31 March 2012
	£000	£000	£000	£000	£000
Fixed interest securities	126,432	68,448	-56,560	5,797	144,117
Index linked securities	805	13	-275	84	627
Equities	421,908	175,073	-165,589	-4,879	426,513
Pooled funds					
- Other	530,502	70,103	-63,451	9,003	546,157
- Property	147,637	20,194	-14,485	815	154,161
Derivative assets					
- Futures	706	6,615	-4,230	-3,421	-330
- Options	0	207	-564	357	0
- Forward FX	1,412	19,623	-17,707	2,340	5,668
	1,229,402	**360,276**	**-322,861**	**10,096**	**1,276,913**
Cash deposits	43,083	301,813	-297,902	-189	46,805
Other Investment balanc	3,861	628	0	-23	4,466
	1,276,346	**662,717**	**-620,763**	**9,884**	**1,328,184**

The PRAG guidance, Accounting for Derivatives in Pension Schemes, recommends that derivatives are set out separately in the investment reconciliation table for reasons of clarity and are reconciled on a 'net' basis as opposed to 'gross' as reported in the Net Assets Statement.

Transaction costs have been debited through the Fund Account and have been disclosed as part of the Investment Management Expenses. Costs are also borne by the Fund in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

Details of investments held at year end

	31 March 2013 £000	31 March 2012 £000
Investment assets		
Fixed interest securities		
- UK fixed interest government bonds	14,897	8,891
- UK fixed interest corporate bonds	146,901	134,667
- Overseas fixed interest corporate bonds	232	559
	162,030	**144,117**
Index linked securities		
- UK index linked corporate bonds	2,435	627
	2,435	**627**
Equities		
- UK equities	23,640	48,380
- Overseas equities	213,055	378,133
	236,695	**426,513**
Pooled investment vehicles		
- UK equities	219,821	193,060
- Overseas equities	518,961	189,425
- UK fixed interest government bonds	0	49,162
- Overseas fixed interest government bonds	177	154
- Overseas fixed interest corporate bonds	978	811
- UK index linked government bonds	76,875	49,801
- Property	149,468	154,161
- Long-short hedge fund	75,364	63,744
- Infrastructure	3,808	0
	1,045,452	**700,318**
Cash held on deposit		
- Sterling cash	25,591	38,444
- Overseas cash	4,218	8,361
	29,809	**46,805**
Other investment balances		
- Derivatives assets	1,871	6,957
- Outstanding dividend entitlements	2,998	3,739
- Recoverable tax	511	727
	5,380	**11,423**
Investment liabilities		
- Derivatives liabilities	-1,313	-1,619
Total of investments held	**1,480,488**	**1,328,184**
Net current assets & liabilities		
Current assets	15,797	18,109
Current liabilities	-2,372	-1,494
Total net current assets	**13,425**	**16,615**
	1,493,913	**1,344,799**

Derivative contracts

Objectives and policies

The Wiltshire Pension Fund committee have authorised the use of derivatives by their investment managers as part of the investment strategy for the Fund.

The main objective for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Options – The Fund allows two of its managers to invest in options as part of their portfolio construction to assist them in achieving performance targets. These options are limited to 'Over-the-Counter' contracts purchased on major exchanges and must not exceed specified limits. Option exposures are limited and hedged through the use of futures.

Futures – The Fund allows a number of its managers to invest in futures, within specified exposure limits, as part of their overall portfolio construction to assist them in achieving performance targets.

Forward foreign exchange – In order to maintain an appropriate diversification of investments within the Fund and take advantage of overseas investment returns a proportion of the investment portfolio is invested overseas. To balance the risk of investing in foreign currencies a dynamic currency hedging programme, using forward foreign contracts, is in place to reduce the currency exposure of the overseas investments. The overseas equity investments are hedged this way.

The Fund had the following derivative contracts outstanding at the year end relating to its fixed interest investment and dynamic currency mandate. The details are:

Derivative contracts

Future Contracts

Nature	Nominal Amount £000	Duration	Economic Exposure £000	Asset value at year end £000	Liability value at year end £000
Fixed Income Security					
UK Long Gilt	(151)	Expires Jun 13	(17,936)		(384)
Australian 10yr Bond	66	Expires Jun 13	5,510		(2)
				-	**(386)**

Forward cash currency contracts

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end £000	Liability value at year end £000
Forward OTC	0 to 6 months	Sterling	Australian Dollar	6	
Forward OTC	0 to 6 months	Sterling	Brazil Real	11	
Forward OTC	0 to 6 months	Sterling	Canadian Dollar		(20)
Forward OTC	0 to 6 months	Sterling	Czech Koruna	1	
Forward OTC	0 to 6 months	Danish Krone	Sterling		(1)
Forward OTC	0 to 6 months	Sterling	Danish Krone	65	
Forward OTC	0 to 6 months	Euro	Sterling		(204)
Forward OTC	0 to 6 months	Sterling	Euro	531	
Forward OTC	0 to 6 months	Hong Kong Dollar	Sterling		(40)
Forward OTC	0 to 6 months	Sterling	Hong Kong Dollar	113	
Forward OTC	0 to 6 months	Sterling	Indonesian Rupiah	1	
Forward OTC	0 to 6 months	Sterling	Israeli Shekel		(2)
Forward OTC	0 to 6 months	Sterling	Japanese Yen		(246)
Forward OTC	0 to 6 months	Sterling	Malysian Ringgit		(1)
Forward OTC	0 to 6 months	Sterling	New Taiwan Dollar	6	
Forward OTC	0 to 6 months	Sterling	New Zealand Dollar		(1)
Forward OTC	0 to 6 months	Sterling	Norwegian Krone	3	
Forward OTC	0 to 6 months	Sterling	Polish Zloty	1	
Forward OTC	0 to 6 months	Sterling	Singapore Dollar		(10)
Forward OTC	0 to 6 months	Sterling	South Korean Won	10	
Forward OTC	0 to 6 months	Swedish Krona	Sterling		(2)
Forward OTC	0 to 6 months	Sterling	Swedish Krona	124	(3)
Forward OTC	0 to 6 months	Sterling	Swiss Franc	40	
Forward OTC	0 to 6 months	Sterling	Thailand Baht	1	
Forward OTC	0 to 6 months	US Dollar	Sterling		(340)
Forward OTC	0 to 6 months	Sterling	US Dollar	958	(57)
				1,871	**(927)**
				1,871	**(1,313)**

Financial Instruments

Classification of financial instruments

The accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2013

	Designated as Fair value through Profit and Loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest securities	162,030	0	0
Index linked securities	2,435	0	0
Equities	225,346	11,349	0
Pooled investment vehicles	895,984	**0**	0
Property	149,468	0	0
Derivative assets	1,871	0	0
cash hels on deposit	0	33,226	0
Other Investment balances	3,509	0	0
Debtors	0	12,380	0
	1,440,643	**56,955**	**0**
Financial Liabilities			
Derivative Liabilities	-1,313	0	0
Creditors	0	-2,372	0
	-1,313	**-2,372**	**0**
	1,439,330	**54,583**	**0**

As at 31 March 2012

	Designated as Fair value through Profit and Loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest securities	144,117	0	0
Index linked securities	627	0	0
Equities	416,810	9,703	0
Pooled investment vehicles	546,157	**0**	0
Property	154,161	0	0
Derivative assets	6,957	0	0
cash held on deposit	0	48,562	0
Other Investment balances	4,466	0	0
Debtors	0	16,352	0
	1,273,295	**74,617**	**0**
Financial Liabilities			
Derivative Liabilities	-1,619	0	0
Creditors	0	-1,494	0
	-1,619	**-1,494**	**0**
	1,271,676	**73,123**	**0**

Net gains/(losses) on financial instruments

	2013 £000	2012 £000
Fianacial assets		
Fair value through profit and loss	120,874	12,528
Loans and receivables	994	-219
Financial liabilities		
Fair value through profit and loss	-1,744	-2,425
Loans and receivables	0	0
Total	**120,124**	**9,884**

Financial Risk Disclosure

As an LGPS Pension Fund, the Funds objective is to achieve a relatively stable "real" return above the rate of inflation over the long term. In order to achieve this objective the Fund holds financial instruments such as securities (equities, bonds), property, pooled funds (collective investment schemes) and cash and cash equivalents. The Funds activities expose it to a variety of financial risks including Market Risk, Credit Risk and Liquidity Risk.

All the Funds investments are managed by appointed Investment Managers. All investments are held by BNY Mellon who acts as custodian on behalf of the Fund. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or pooled fund prospectus.

The Wiltshire Pension Fund Committee has determined that these managers are appropriate for the Fund and is in accordance with its investment strategy. The Committee obtains regular reports from each investment manager and its Investment Consultant on the nature of investments made and associated risks.

The analysis below is designed to meet the disclosure requirements of IFRS 7.

a) Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. This could be as a result of changes in market price, interest rates or currencies. The objective of the Funds Investment strategy is to manage and control market risk exposure within acceptable parameters, while optimising the return.

In general excessive volatility in market risk is managed through diversification across asset class and investment manager. Each manager is also expected to maintain a diversified portfolio within their allocation.

1) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting the market in general.

By diversifying investments across asset classes and managers, the Fund aim to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst the appointment of specialist managers enables the Fund to gain from their investment expertise.

Market Price - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data has been provided by the Fund's Investment Advisor (Mercers) and is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues. The analysis assumes that all other variables, in particular, interest rates and foreign exchange rates, remain constant.

Movements in market prices would have increased or decreased the net assets valued at 31 March 2013 and 2012 by the amounts shown below.

As at 31 March 2013	Value £'000	Volatility of return	Increase £000	Decrease £000
Baillie Gifford - Global Equity	227,940	17.00%	38,750	(38,750)
CBRE Global Multi Manager - Property	162,841	10.80%	17,587	(17,587)
Western Asset Management - Corporate Bonds	173,712	6.70%	11,639	(11,639)
Legal & General - Equity	219,821	16.60%	36,490	(36,490)
Legal & General - Gilts	76,875	11.00%	8,456	(8,456)
Legal & General - Global Equity	249,512	17.00%	42,417	(42,417)
Edinburgh Partners - Global Equity	120,759	17.00%	20,529	(20,529)
Jubilee Advisors - Long/Short Hedge Funds	75,365	10.90%	8,215	(8,215)
Barings - Dynamic Assets Allocation	150,774	12.00%	18,093	(18,093)
Partners Group - Infrastructure	3,811	30.00%	1,143	(1,143)
M&G - Financing Fund	11,349	0.00%	0	0
Berenberg Bank - Dynamic Currency Fund	7,482	0.00%	0	0
Capital International - Global Equity	135	0.00%	0	0
Capital International - Absolute Income Grower	112	0.00%	0	0
	1,480,488		**203,319**	**- 203,319**

As at 31 March 2012	Value £'000	Volatility of return	Increase £000	Decrease £000
Baillie Gifford - Global Equity	178,592	17.39%	31,057	(31,057)
Capital International - Global Equity	178,821	17.39%	31,097	(31,097)
Capital International - Absolute Income Grower	136,630	12.94%	17,680	(17,680)
CBRE Global Multi Manager - Property	160,616	11.04%	17,732	(17,732)
Western Asset Management - Corporate Bonds	153,462	9.62%	14,763	(14,763)
Legal & General - Equity	193,060	17.39%	33,573	(33,573)
Legal & General - Gilts	98,964	12.07%	11,940	(11,940)
Edinburgh Partners - Global Equity	131,981	17.39%	22,951	(22,951)
Jubilee Advisors - Long/Short Hedge Funds	67,844	11.02%	7,476	(7,476)
Record Currency Management	18,511	0.00%	0	0
M&G - Financing Fund	9,703	0.00%	0	0
	1,328,184		**188,270**	**(188,270)**

2) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate movements from its investments in cash & cash equivalents, fixed interest and loans at 31 March 2013 and 2012 are provided below.

	31.03.13 £000
Cash held on deposit	29,809
Fixed Interest Securities	162,030
Loans	11,349
	203,188

	31.03.12 £000
Cash held on deposit	46,805
Fixed Interest Securities	144,117
Loans	9,703
	200,625

Interest Rate – Sensitivity Analysis

The Pension Fund recognises that interest rates vary and can impact on the fair value of the assets. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the affect of a 100 basis point (1%) change in interest rates. This analysis assumes that all other variable, in particular foreign currency rates, remain constant.

As at 31 March 2013	Value £000	Change in net assets £000 +100 BP	£000 -100 BP
Cash held on deposit	29,809	298	-298
Fixed Interest Securities	162,030	-13,108	13,108
Loans	11,349	0	0
	203,188	**-12,810**	**12,810**

As at 31 March 2012	Value £000	Change in net assets £000 +100 BP	£000 -100 BP
Cash held on deposit	46,805	468	-468
Fixed Interest Securities	144,117	-10,722	10,722
Loans	9,703	0	0
	200,625	**-10,254**	**10,254**

A 1% increase in interest rates will reduce the fair value of the relevant net assets and vice versa. The loans identified are part of the M&G Financing Fund. Borrowers pay a fixed annual interest rate agreed at the outset.

3) Currency Risk

Currency risk represents the risk that the fair value of financial instruments will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than sterling. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value of foreign currency denominated investments will fall.

Currently Wiltshire Pension Fund has a dynamic hedging arrangement in place. This reduces the volatility of returns over the long term.

The tables below show approximate exposures to each of the three major foreign currencies based on manager benchmarks and target allocations. This is based on the three global equity managers Baillie Gifford, Edinburgh Partners and Legal & General.

2013

	US Dollar	Euro	Yen
Benchmark Weights	18.00%	6.60%	3.20%
	£'000	£'000	£'000
Net Currency Exposure	**266,904**	**97,108**	**47,408**

2013

	US Dollar	Euro	Yen
Benchmark Weights	21.70%	4.80%	3.70%
	£'000	£'000	£'000
Net Currency Exposure	**288,486**	**63,317**	**49,330**

Currency Risk – Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates have been analysed using a 10% movement in exchange rates in either direction. This analysis assumes that all variables, in particular interest rates, remain constant.

A 10% strengthening or weakening of Sterling against the various currencies at 31 March 2013 and 31 March 2012 would have increased or decreased the net assets by the amount shown below.

2013

	Assets Held at Fair Value	Change in net assets +10%	-10%
	£'000	£'000	£'000
US Dollar	266,904	26,690	-26,690
Euro	97,108	9,711	-9,711
Yen	47,408	4,741	-4,741
Net Currency Exposure	**411,420**	**41,142**	**-41,142**

2012

	Assets Held at Fair Value	Change in net assets +10%	-10%
	£'000	£'000	£'000
US Dollar	288,486	28,849	-28,849
Euro	63,317	6,332	-6,332
Yen	49,330	4,933	-4,933
Net Currency Exposure	**401,133**	**40,114**	**-40,114**

As the Fund has a dynamic hedging arrangement in place only a proportion of the gains/losses would be experienced. One important point to note is that currency movements are not independent of each other. If sterling strengthened generally it may rise against all the above currencies producing losses across all the currencies.

b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to meet their obligations and the Fund will incur a financial loss.

The Fund is exposed to credit risk through its investment managers, custodian and its daily treasury management activities. Credit risk is minimised through the careful selection and monitoring of counterparties.

A securities lending programme is run by the Fund's custodian, BNY Mellon, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral Wiltshire Pension Fund accepts is AAA rated Supranational debt, AA rated sovereign debt and FTSE Equity DBV. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 35% of eligible assets can be on loan at any one time.

Forward currency contracts are entered into by the Fund's currency overlay manager – Berenberg. These contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The responsibility for these contracts rests with Berenberg. Prior to appointment full due diligence was undertaken, they are regulated by BaFin (the German equivalent of FSA) and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

Another source of credit risk is the cash balances held internally or by managers. The Pension Fund's bank account is held at HSBC, which holds a AA- long term credit rating and it maintains its status as a well capitalised and strong financial institution. The management of the cash held in this account is managed by the Council's Treasury Management Team in line with the Fund's Treasury Management Strategy which sets out the permitted counterparties and limits. Cash held by investment managers is invested with the custodian in a diversified money market fund rated AAAm.

The Fund's exposure to credit risk at 31 March 2013 and 2012 is the carrying amount of the financial assets.

2013

	£'000
Fixed interest securities	162,030
Index linked securities	2,435
Derivative assets	558
Cash held on deposit	29,809
Other investment balances	3,509
Current assets	15,797
	214,138

2012

	£'000
Fixed interest securities	144,117
Index linked securities	627
Derivative assets	5,338
Cash held on deposit	46,805
Other investment balances	4,466
Current assets	18,109
	219,462

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The main liabilities of the Fund relate to the benefits payable which fall due over a long period of time. The investment strategy reflects this and set out the strategic asset allocation of the Fund. Liquidity risk is mitigated by investing a proportion of the Fund in actively traded instruments in particular equities and fixed income investments. The Fund maintains a cash balance to meet operational requirements.

The following tables analyses the Fund's financial liabilities as at 31 March 2013 and 2012, grouped into relevant maturity dates.

2013

	Carrying Amount £'000	Less than 12 months £'000	Greater than 12 months £'000
Accounts Payable	26	26	0
Benefits Payable	819	819	0
Sundry Creditors	1,526	1,526	0
	2,371	**2,371**	**0**

2012

	Carrying Amount £'000	Less than 12 months £'000	Greater than 12 months £'000
Accounts Payable	98	98	0
Benefits Payable	248	248	0
Sundry Creditors	1,148	1,148	0
	1,494	**1,494**	**0**

Fair Value Hierarchy

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the Fund has the ability to access at the measurement date.

- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3: Unobservable inputs for the asset or liability used to measure fair value that rely on the Funds own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The tables below analyse financial instruments, measured at fair value at the end of the reporting period 31 March 2013 and 31 March 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. This has been produced from analysis produced by the Fund's custodian BNY Mellon.

2013

	£000 Level 1	£000 Level 2	£000 Level 3	£000 Total
Fixed Interest Securities	679	161,351		162,030
Index Linked Securities		2,435		2,435
Equities	223,788		12,907	236,695
Pooled Funds:				0
- Other		892,176	5,585	897,761
- Property		132,508	15,183	147,691
Derivative assets				0
- Futures	-386			-386
- Options				0
- Forward FX	944			944
	225,025	**1,188,470**	**33,675**	**1,447,170**
Cash Deposits	29,805	4		29,809
Other Investment balances	3,509			3,509
	258,339	**1,188,474**	**33,675**	**1,480,488**

2012

	£000 Level 1	£000 Level 2	£000 Level 3	£000 Total
Fixed Interest Securities		144,117		144,117
Index Linked Securities		627		627
Equities	414,931		11,582	426,513
Pooled Funds:				0
- Other	60,066	486,091		546,157
- Property	226	153,935		154,161
Derivative assets				0
- Futures	-330			-330
- Options				0
- Forward FX	5,668			5,668
	480,561	**784,770**	**11,582**	**1,276,913**
Cash Deposits	36,396	10,409		46,805
Other Investment balances	4,466			4,466
	521,423	**795,179**	**11,582**	**1,328,184**

During 2012/13 there were no transfers between level 1 and 2 of the fair value hierarchy.

The following tables presents the movement in level 3 instruments for the year end 31 March 2013 and 31 March 12.

2013

	£000
Opening balance	11,582
Total gains/losses	12,911
Purchases	12,771
Sales	-3,589
Transfer out of Level 3	0
Closing balance	**33,675**

2012

	£000
Opening balance	7,190
Total gains/losses	-526
Purchases	4,918
Sales	0
Transfer out of Level 3	0
Closing balance	**11,582**

12. Investment management expenses

	2012-13 £000	2011-12 £000
Administration, management and custody	2,860	5,114
Transaction Costs	289	313
Performance measurement services	40	38
	3,189	**5,465**

13. Current assets

	31 March 2013 £000	31 March 2012 £000
Contributions due from other authorities and bodies		
- Employees	767	1,459
- Employers	2,501	2,709
Income due from external managers and custodians	-	-
Debtors (Magistrates)	6,755	8,685
Other	2,357	3,499
Cash balances	3,417	1,757
	15,797	**18,109**
Less:		
Long Term debtors (Magistrates	- 6,755	- 7,720
Net current assets	**9,042**	**10,389**

Contributions due at the year end have been paid to the Fund subsequent to the year end in accordance with the Rates & Adjustment certificate.

14. Current liabilities

	31 March 2013 £000	31 March 2012 £000
Managers / custody fees	764	593
HMRC	607	544
Other	1,001	357
	2,372	**1,494**

15. Additional Voluntary Contributions (AVCs)

Fund members paid contributions totalling £0.371 million (£0.286 million in 2011/12) into their AVC funds during the year. At the year end, the value of funds invested on behalf of Fund members totalled £3.152 million (£2.950 million in 2011/12), made up as follows:

	£ Million
Equitable Life Assurance Society	
- With Profits Fund	0.894
- Unit Linked Managed Fund	0.258
- Building Society Fund	0.039
Clerical Medical Funds	
- With Profits Fund	0.196
- Unit Linked Managed Fund	0.952
NPI Fund	
- Managed Fund	0.028
- With Profits Fund	0.136
- Global Care Unit Linked Fund	0.052
- Cash Deposit Fund	0.032
Prudential	
- With Profits Cash Accumulation Fund	0.154
- Deposit Fund	0.134
- Diversified Growth Fund	0.070
- Equity Passive	0.001
- Long Term Growth Fund	0.095
- Pre-Retirement Fund	0.058
- Property Fund	0.053
	3.152

As mentioned earlier, AVC investments are not included in the Fund's financial statements.

16. Employer related assets

There are no employer related assets within the Fund.

17. Related Party Transactions

The Wiltshire Pension Fund is administered by Wiltshire Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £975K (2011/12: £952K) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £25m to the fund in 2012/13 (2011/12: £27m). A balance of £1.2m was owing to the Pension Fund by the Council at year end.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Wiltshire Council, through a service level agreement. During the year to 31 March 2013, the fund had a average investment balance of £2.8m (31 March 2012: £2.8m), earning interest of £22k (2011/12: £22k) in these funds.

Governance

There are two members of the pension fund committee L Croft and T Jackson that are active members of the pension fund. These individuals are the employer bodies' representatives.

18. Guaranteed minimum pension

The Fund is in the process of updating details of Guaranteed Minimum Pensions (GMP) that were not previously shown on member's records. This information had previously not been received from Department for Work & Pensions when members had left the scheme or reached State Pension Age.

GMP elements of member's LGPS pension are not increased by the Fund for Pre 1988 GMP (in respect of the period 06/04/1978 to 05/04/1988) but for Post 1988 (in respect of the period 06/04/1988 to 05/04/1997) it is increased by a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element it is only increased if CPI is above 3%.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension would be increased by more than it should be.

As the GMP information has been received, member's records will be amended to show the amounts of GMP that make up their LGPS pension and therefore future pension increases are then calculated correctly.

Although these overpayments are costs to the Fund they have been included as expenditure in previous pension fund accounts, therefore no restatement is necessary.

19. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled Euro 45.266m (31 March 2012:0).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the infrastructure part of the portfolio. The amounts 'called' are irregular in both size and timing from the original commitment.

11. IAS26 statement

Actuarial Statement in respect of IAS26 as at 31.03.2013

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined obligation under IAS19. There are three options for its disclosure in pension fund account:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- As a note to the accounts; or
- By reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Wiltshire Council Pension Fund, which is in the remainder of this note.

Balance sheet Year ended	31 Mar 2013	31 Mar 2012
	£m	£m
Present Value of Promised Retirement Benefits	2,285	1,922

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £1,143m in respect of employee members, £429m in respect of deferred pensioners and £713m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied that aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £223m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a.	31 Mar 2012 % p.a.
Inflation/Pension Increase Rate	2.8%	2.5%
Salary Increase Rate*	5.1%	4.8%
Discount Rate	4.5%	4.8%

**Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.*

Longevity assumption

As discussed in the accompanying report, life expectancy is based on the Fund's VitaCurves with improvements from 2010 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.3 years	23.6 years
Future Pensioners	23.3 years	25.5 years

**Future pensioners are assumed to be currently aged 45*

This assumption is the same as at 31 March 2012.

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Catherine McFadyen FFA
23 May 2013

12. Further information & contacts

The Council produces a number of other publications, as well as this booklet to support its role as administering authority of the Wiltshire Pension Fund. You can request these from the Wiltshire Pension Fund at County Hall, Trowbridge, from our Website at www.wiltshirepensionfund.org.uk or by emailing pensionenquiries@wiltshire.gov.uk.

Guide to the Local Government Pension Scheme

This booklet explains the benefits available to employees and their dependants of being in the Fund.

Employers' guide

This is available on our website and specifically aimed at staff within employer bodies with responsibility for providing information to the Pensions Section in respect of Fund administration. The aim of the Guide is to provide Scheme Employers with all the information they need in order to fulfil their pension responsibilities correctly.

Starter packs

These contain information that has to be made available to new employees on their pension entitlements, together with supporting information.

Retirement packs

These contain information for every new pensioner about their pension and other supporting information.

Newsletters

Occasional newsletters are produced, both for participating Fund members and for pensioners, containing information of interest.

Annual benefit statements

Statements are automatically available for all full-time Fund members and those working regular part time hours, and also for deferred pensioners. Statements are also available on request for any Fund member at any time.

Other information

Various leaflets, posters and fact sheets explaining the Fund and highlighting its benefits are produced. The Pensions Section also has booklets available produced by Prudential on Additional Voluntary Contributions.

For further information contact:

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Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Review of Academies

Purpose of the Report

1. This report informs Members of the current position concerning schools who are converting to academy status and the impact that this has on the Wiltshire Pension Fund ("the Fund")

Introduction & Background

2. Currently, 59 schools have converted to academy status in Wiltshire & Swindon. Nearly all of these conversions have occurred since September 2010 (see list in the Appendix A).

3. Under the Local Government Pension Scheme (LGPS) Regulations, there is a mutual obligation on the academy and the appropriate LGPS Fund - the academy must become a Scheme Employer and the Fund must accept them.

4. In schools and academies, teachers are eligible for the Teachers Pension Scheme and only the support staff are eligible for the LGPS. Currently, there are approximately 3,200 LGPS active members of the Wiltshire Pension Fund working for an academy. These members are split between 35 Wiltshire based academies (representing £28.5m in liabilities movements from Wiltshire Council to the academies, as valued as at the date of each transfer) and 24 Swindon based academies (£17.8m of liabilities movements from Swindon Borough Council to the relevant academies, as valued as at the date of each transfer).

5. In the absence of clear and definitive guidance from the Department for Education (DfE) & Department for Communities and Local Government (CLG) on the treatment of pensions for academies, officers have considered and taken advice from the actuary and legal advisers to form a consistent approach on how to deal with converting schools.

6. Due to this lack of legislation and clear guidance LGPS funds have taken different approaches towards academies. The Fund's view is its current stance is aligned to the objectives of the DfE and CLG of broadly treating academies no more or less favourably than maintained schools. However, approaches vary significantly between funds and debate continues over what is considered as 'fair' for all the parties concerned.

7. As further guidance is issued from the DfE and CLG, the Fund will consider this against the policy it has taken. The Secretary of State issued a statement on 2 July 2013 in regards to a proposed guarantee to be provided by the government in respect of the pension liabilities of academies. A consultation on the treatment

of academies from CLG is also expected in the autumn which may lead to subsequent legislation changes.

Main Considerations for the Committee

The Conversion Process

8. When a school converts to academy status, the new academy is treated as an independent employer with our Fund. All schools considering converting are provided with a pack outlining their pension responsibilities, and guidance on the process and administration is provided by the Fund's Employer Relationship Manager. Where appropriate, or on request, visits are made to schools and meetings are held with either their Bursary / Business Managers or board of governors. When each academy converts, they are directed to the appropriate contacts and to the information on the website. The website outlines the pension position and the Fund's policies (including information on the costs and risks involved). The Fund also provides new academies with an actuarial report which outlines the details of the conversion.

9. The actuary calculates a new employer contribution rate for the academy and determines the appropriate amount of assets that need to be moved from the relevant Local Authority (LA) to the academy in respect of the transferring liabilities.

10. As academies are standalone employers, they are responsible for all of the pension costs relating to their staff including pension strain costs such as redundancies. Their employer contribution rate is reviewed as part of the Triennial Valuation and depending on the results, the rate is adjusted accordingly

Starting Assets / Share of Deficit

11. The Fund's approach to calculating the starting assets is to use a 'Share of Deficit' basis. Under this basis the actuary first determines the amount of pension liabilities being transferred across to the new academy in respect of the transferring active members to determine the appropriate amount of assets to follow these liabilities across they then apply the estimated current funding level of the relevant local authority to the amount of transferring liabilities.

12. For example, if the liabilities of the transferring active members were £1m and current funding level of the appropriate Local Authority (LA) was 75% then the new academy would be credited with £0.75m in assets. Appendix A shows the assets transferred for all academies to date.

13. Some pension funds fund take a similar approach but also hold back assets for the LA in respect of a 'notional' share of liabilities to fully cover deferred and pensioners not transferring to the academy. This leaves academies with a substantially lower funding position, which will lead to higher contributions being required – this is a contributing factor to some of the higher contribution rates seen elsewhere for academies.

Contribution Rates

14. One of the reasons academies are paying a higher contribution rate is that they are less secure than the LAs. This means that their pension deficit recovery period will be shorter than the LAs 20 years.

15. Some LGPS funds have taken as little as 7 years for this deficit recovery period as this was the maximum length of time academies funding was guaranteed for. The Fund's view is that academies are less secure than the LAs but to "treat academies equitably" as far as possible use a starting deficit recovery position of 14 years in setting their contribution rate.

16. Other factors that impact on contribution rates include the differences in membership profile and economic conditions at the date of conversion which means that there cannot be a guarantee that there will be no significant divergence in employer contribution rates upon conversion.

17. The approach the Fund has taken does mitigate these differences as far as possible. Furthermore, where the new contribution rate for the academy is significantly higher than the one that applied prior to conversion, the Fund has allowed academies to phase in their increases using the "Contribution Rate Relief" policy as implemented for all non-tax raising employers as part of the 2010 Fund Valuation. Appendix A shows the contribution rates implemented for all the academies with the Fund.

'Pooling' Academies

18. The DfE have proposed LGPS funds should 'positively consider' pooling academies in their geographical area with the Local Authority as a solution to the differences in employer contribution rates between maintained schools and academies.

19. A 'pooling' arrangement appears to make little sense apart from covering up the underlying funding issues. The financial independence the academy status brings would be lost and this could turn out to be better or worse for them in terms of contribution rates in the long term. It also means that there will be a loss of control in relation to financial decisions and discretions applied. This will impact on the funding levels of by both the LA and the academy (e.g. salary increases increasing liabilities). Currently, the view amongst most LGPS funds and actuaries is that they feel the principle of pooling is not the most appropriate way for the DfE to meet its stated aim. To date, there has been limited request for 'pooling' within the Fund.

Government Guarantees

20. The funding guarantee announced by the Government to Parliament on 2 July 2013 alludes to covering the outstanding pension liabilities, should an academy close. This is welcomed as it provides additional assurances. It is also expected to underpin any proposals relating to the pooling of academies that are set out in the forthcoming consultation.

21. However, the guarantee still leaves a number of questions. One of these relates to the right of the DfE to 'withdraw at any time' from this position. This is linked to the Contingent Liability ceiling that represents the DfE's maximum total exposure (see Appendix B - briefing note from Hymans Robertson for further detail).

22. However, until more detail is released officers are of the opinion this doesn't change the stance already taken. A stance which attempts to treat the academies as equitably as possible within the current LGPS regulations.

Implementation on 2013 Valuation

23. The timing of the above announcement and pending consultation on pooling poses a number of questions for the current 2013 Valuation work. Questions are now raised as to whether academies should be included as part of the Stabilisation Policy as a result of the additional guarantees? Should deficit recovery periods by extended? Should pooling arrangements be implemented / considered? These areas will be discussed further as part of the review of the Stabilisation Policy and the 2013 Valuation.

Next Steps

24. As part of the 2013 Valuation process, officers will be reviewing the covenants of all employers including academies and taking a view on the appropriateness of recovery periods and offer academies the ability to 'phase in' any contribution rates to mitigate any significant increases.

25. However, it is likely that when the results of the Valuation are known there could be more pressure for 'pooling arrangements' which may need further consideration.

26. The Fund will also await the forthcoming consultation on academies and formally respond through this committee should time frames allow.

Risks Assessment

27. At whole fund level, the main additional risk to the Fund is the movement of pension deficit from "secure" Local Authorities to the new academies. This does pose an element of risk to the Fund in that if some academies failed there would be no specific employer who would be responsible for the former employees' pension liabilities. The default option would be that all the other employers in the Fund would be responsible for all these liabilities. An alternative would be to pool academies to share these liabilities between all the other academies and the LEAs.

28. However, in all cases we would expect the recent parliamentary guarantee to help mitigate this potential risk even though it is still unclear how this would work in practice and there is still the possibility that this guarantee could be withdrawn at any time.

Financial Implications

29. The actuarial fees involved in setting up academies are re-charged to the academy concerned. However, the administration of the Fund has become more complex due to the significant increase in the number of employers and this additional work will have an impact on resources and will need to be reviewed when setting the 2014/15 budget.

Safeguarding Considerations/Public Health Considerations/Equalities Impact

30. There are no known implications at this time.

Legal Implications

31. No direct legal implications

Proposals

32. The Committee is asked to note the report.

MICHAEL HUDSON
Service Director - Finance

Report Author: Andy Cunningham, Employer Relationship & Fund Development Manager

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

Appendix A – List of Academies
Appendix B – Briefing Note from Hymans Robertson

APPENDIX A

All Academies - Actives								
Name	**No of Actives**	**Local Authority**	**Conversion Date**	**Starting Assets £**	**Assessed Starting Employer Contribution Rate %**	**Agreed Current Employer Contribution Rate %**	**LEA Rate %**	**Diff %**
United Learning Trust	153	Swindon	01 April 2013	746,000	14.6%	14.6%	19.9%	-5.3%
Goddard Park	102	Swindon	22 September 2010	681,000	11.9%	11.9%	19.9%	-8.0%
Wootton Bassett	59	Swindon	01 April 2011	1,135,000	20.6%	20.6%	19.9%	0.7%
Ridgeway Acad	62	Swindon	01 August 2011	504,000	20.1%	20.1%	19.9%	0.2%
Commonweal Acad	83	Swindon	01 August 2011	832,000	20.8%	20.8%	19.9%	0.9%
Holy Rood Infants	37	Swindon	01 August 2011	172,000	21.9%	21.9%	19.9%	2.0%
Holy Rood Junior	39	Swindon	01 August 2011	198,000	18.3%	18.3%	19.9%	-1.6%
Lethbridge Acad	50	Swindon	01 August 2011	261,000	21.0%	21.0%	19.9%	1.1%
Lydiard Acad	53	Swindon	01 August 2011	1,028,000	24.3%	24.3%	19.9%	4.4%
St Josephs Swindon Acad	71	Swindon	01 August 2011	1,101,000	21.4%	21.4%	19.9%	1.5%
St Marys Swindon	29	Swindon	01 August 2011	152,000	23.4%	23.4%	19.9%	3.5%
Kingsdown Acad	89	Swindon	01 August 2011	1,051,000	21.5%	21.5%	19.9%	1.6%
Churchfields Acad	52	Swindon	01 September 2011	1,108,000	23.2%	23.2%	19.9%	3.3%
Eastrop Acad	15	Swindon	01 September 2011	76,000	24.0%	24.0%	19.9%	4.1%
Gorse Hill Acad	49	Swindon	01 April 2012	280,000	22.1%	22.1%	19.9%	2.2%
Southfield Junior Acad	23	Swindon	01 September 2011	104,000	21.3%	21.3%	19.9%	1.4%
St Leonards Acad Swindon	15	Swindon	01 November 2011	104,000	23.5%	23.5%	19.9%	3.6%
Colebrook Infants	10	Swindon	01 November 2011	78,000	23.7%	23.7%	19.9%	3.8%
Dorcan Tech	55	Swindon	01 December 2011	1,059,000	26.4%	26.4%	19.9%	6.5%
Sevenfields Acad	35	Swindon	01 April 2012	133,000	20.4%	20.4%	19.9%	0.5%
King William Street Swindon	23	Swindon	01 August 2012	101,000	23.2%	23.2%	19.9%	3.3%
White Horse Federation	164	Swindon	01 July 2012	1,037,000	21.8%	21.8%	19.9%	1.9%
Holy Family Acad	35	Swindon	01 September 2012	172,000	22.8%	22.8%	19.9%	2.9%
St Catherines Acad	16	Swindon	01 September 2012	149,000	26.8%	26.8%	19.9%	6.9%
	1,319		**Swindon**	12,262,000	21.6%	21.6%	19.9%	1.7%
Name	**No of Actives**	**Local Authority**	**Conversion Date**	**Starting Assets £**	**Assessed Starting Employer Contribution Rate %**	**Agreed Current Employer Contribution Rate %**	**LEA Rate %**	**Diff %**
Wellington Acad	61	Wiltshire	01 September 2009	497,000	18.1%	18.1%	19.5%	-1.4%
Sarum Acad	41	Wiltshire	01 September 2010	955,000	15.6%	15.6%	19.5%	-3.9%
Hardenhuish Acad	89	Wiltshire	01 September 2010	866,000	17.2%	17.2%	19.5%	-2.3%
Bishop Wordsworth Acad	55	Wiltshire	01 February 2011	550,000	18.9%	18.9%	19.5%	-0.6%
South Wilts Grammar	43	Wiltshire	01 January 2011	517,000	19.3%	19.3%	19.5%	-0.2%
Lavington Acad	48	Wiltshire	01 January 2011	574,000	21.1%	21.1%	19.5%	1.6%
Corsham Primary Acad	51	Wiltshire	01 April 2011	218,000	16.4%	16.4%	19.5%	-3.1%
Corsham Secondary Acad	76	Wiltshire	01 April 2011	784,000	18.8%	18.8%	19.5%	-0.7%
Sheldon Acad	73	Wiltshire	01 April 2011	1,003,000	20.8%	20.8%	19.5%	1.3%
Pewsey Vale Acad	44	Wiltshire	01 July 2011	427,000	21.1%	21.1%	19.5%	1.6%
Highworth Warneford	63	Wiltshire	01 July 2011	605,000	21.1%	21.1%	19.5%	1.6%
Malmesbury Sec Acad	65	Wiltshire	17 August 2011	615,000	22.3%	22.3%	19.5%	2.8%
Kingdown Acad	64	Wiltshire	01 August 2011	985,000	21.3%	21.3%	19.5%	1.8%
St Laurence Acad	74	Wiltshire	01 August 2011	892,000	20.5%	20.5%	19.5%	1.0%
Holy Trinity Great Chev	18	Wiltshire	01 September 2011	99,000	22.8%	22.8%	19.5%	3.3%
St Augustines Acad	55	Wiltshire	01 September 2011	829,000	24.1%	24.1%	19.5%	4.6%
St Edmunds Calne	19	Wiltshire	01 September 2011	96,000	24.1%	24.1%	19.5%	4.6%
St Josephs Devizes Acad	21	Wiltshire	01 September 2011	103,000	21.3%	21.3%	19.5%	1.8%
Springfields Acad	70	Wiltshire	01 September 2011	1,207,000	23.1%	21.1%	19.5%	1.6%
John Bentley Acad	92	Wiltshire	01 November 2011	992,000	22.8%	22.8%	19.5%	3.3%
Woodford Valley Acad	32	Wiltshire	01 June 2012	126,000	23.2%	23.2%	19.5%	3.7%
St Edmunds, Salisbury	70	Wiltshire	01 February 2012	920,000	30.5%	23.4%	19.5%	3.9%
John of Gaunt Acad	99	Wiltshire	01 April 2012	1,195,000	25.7%	23%	19.5%	3.5%
By Brook Valley	28	Wiltshire	01 May 2012	51,000	20.5%	20.5%	19.5%	1.0%
The Mead Acad	75	Wiltshire	01 May 2012	270,000	21.6%	21.6%	19.5%	2.1%
Holy Trinity Calne Acad	29	Wiltshire	01 May 2012	216,000	29.0%	22.9%	19.5%	3.4%
Excalibur Academy	76	Wiltshire	01 September 2012	1,255,000	24.6%	21.4%	19.5%	1.9%
Devizes Acad	81	Wiltshire	01 September 2012	1,220,000	25.0%	21.5%	19.5%	2.0%
The Manor Acad	41	Wiltshire	01 September 2012	265,000	21.2%	21.2%	19.5%	1.7%
Education Fellowship	55	Wiltshire	01 December 2012	710,000	23.1%	23.1%	19.5%	3.6%
Rowde Academy	22	Wiltshire	01 January 2013	206,000	24.5%	24.5%	19.5%	5.0%
Wansdyke Acad	27	Wiltshire	01 February 2013	240,000	24.3%	24.3%	19.5%	4.8%
Oasis Community Learning Acad	17	Wiltshire	01 April 2013	102,000	26.6%	22%	19.5%	2.5%
Education Fellowship Pembroke	33	Wiltshire	01 December 2013	710,000	23.1%	23.1%	19.5%	3.6%
Malmesbury Primary Acad	39	Wiltshire	01 June 2013	275,000	23.9%	23.9%	19.5%	4.4%
	1,846		**Wiltshire**	20,575,000	22.2%	21.4%	19.5%	1.9%
			Overall	32,837,000	21.8%	21.4%	19.7%	1.7%

briefing note

When a guarantee is not a guarantee?

July 2013

Douglas Green

Actuary

Steven Scott

Actuary

When is a guarantee not a guarantee?

On 2 July 2013, The Secretary of State for Education confirmed in a statement to Parliament that the Department for Education (DfE) will now provide a guarantee to meet the outstanding pension liabilities, should an academy close.

We welcome this development. The provision of a (limited) guarantee from central government is a step in the right direction. We do question the effectiveness of a guarantee which DfE and HM Treasury reserve the right to 'withdraw at any time' (allowing for a reasonable notice period).

This Briefing Note examines the impact the proposed guarantee will have on Academy contribution rates.

Background

When a Local Authority School converts to Academy status, they assume responsibility for the pension obligations of employees entitled to membership of the Local Government Pension Scheme (LGPS). From the point of conversion, each Academy is recognised as a separate employer in the LGPS Fund and the Administering Authority must set the starting asset position and ongoing contribution rate based on the risk the Academy poses to the Fund and all other employers participating in the Fund.

At present, a wide range of approaches have been adopted by Administering Authorities, leading to Academies paying a wide range of contribution rates and, in many cases, rates which are currently (or, following the 2013 valuation, could be) significantly higher than the rates paid by schools under Local Authority control.

Objective of the guarantee

The provision of the guarantee is intended to allow Administering Authorities to *"treat academies equitably"* with Local Authorities when setting employer contribution rates.

We believe the expectation of central government is for the rates paid by Academies to be similar to those paid by Local Authorities, but does the detail of the guarantee allow Administering Authorities to do this?

The devil in the detail

The specific details of the guarantee are set out in a parliamentary minute, which confirm that HM Treasury have approved the guarantee in principle. DfE are seeking to rush this through parliament on grounds that they expect this guarantee to underpin proposals for Academy pooling arrangements (which are to be consulted on shortly).

However, when is a guarantee not a guarantee…perhaps when it can be withdrawn at any time! Under the terms of the guarantee, the DfE and HM Treasury reserve the right to '*withdraw the guarantee at any time*'. Instances when the guarantee may be withdrawn include;

- Estimated contingent liability (CL) ceilings are exceeded (which could mean the withdrawal of the guarantee when it is most needed).
- Projected costs are no longer affordable from within DfE's existing budget.
- Projected costs are not approved by HM Treasury.
- HM Treasury reserve the right to remove the guarantee due to spending considerations or policy developments.

While many (including ourselves) have been calling for a guarantee from central government, the form of this guarantee may leave Administering Authorities feeling hesitant about making significant changes in their approach to setting Academy contribution rates. This is considered further below.

Contingent liability (CL) ceiling

The annual estimates of CL ceilings which represent the maximum total exposure to DfE, as set out in the parliamentary minute, are set out below.

FY	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
CL (£m)	6.5	8.5	10.5	11.5	12	13	13.5	14

To give an idea of the potential scale, assuming there are currently c2,500 Academies each with a substantial deficit and numbers expected to double over the next 10 years, the CL ceiling represents a failure rate of Academies of something in the region of 1-2%.

The DfE's assertion in the parliamentary minute is that that the likelihood of an Academy failing is extremely low, and the current failure rate is much lower than the 1-2% implied in the CL ceilings. However, we should recognise the risk that pension liabilities for failing Academies could exceed the CL ceilings in all future years.

Involvement of HM Treasury

It is understandable that HMT would want to limit its potential exposure. However, Administering Authorities also need to control their risks and have a duty to protect other employers participating in their Funds. Administering Authorities may be concerned that HM Treasury's 'get-out' clause could leave Funds exposed and other participating employers at risk.

Other unanswered questions

The terms of the guarantee may determine the extent to which Administering Authorities will want to alter their approach to setting Academy contribution rates, for example;

- What measure of pension liabilities will the guarantee cover, the ongoing cost, or the cost on a more prudent 'least risk' basis?
- What events will the guarantee cover, i.e. will the guarantee trigger if the Academy somehow elects to re-join the Local Authority at a later date?
- Further information relating to how the contingent liability ceiling would work in practice.

What could this mean for Academies

Starting assets

The provision of a guarantee should not affect the approach the Administering Authority uses to set the level of assets allocated to Academies on conversion. This is generally designed to ensure that Academies contribute their fair share to the deficit in respect of former employees.

Contribution rates

Administering Authorities will need to consider to what extent the provision of this guarantee would lead them to change the approach and assumptions used when setting contribution rates (including for example any deficit recovery periods). The proposed guarantee, in its current form, does not offer the same degree of security that Administering Authorities assume for employers with the strongest covenant. They may therefore be wary setting contributions using the same approach.

In general terms, the sorts of change in approach that Administering Authorities might consider due to the existence of a guarantee include:

- **Deficit spread period** – As the DfE previously only guaranteed Academy funding for a period of 7 years, this has been used by some Administering Authorities as the period over which past service deficits should be recovered. Deficit spread periods could justifiably be extended with a funding guarantee to a similar period adopted for Local Authorities (around 20 years). A longer deficit recovery period leads to a lower contribution rate.
- **Contribution stability policies** – For the most secure employers, many Administering Authorities have long term contribution stabilisation policies (effectively taking a longer term view). Administering Authorities might consider whether this guarantee permits the extension of contribution stability policies to Academies.
- **Pooling with ceding authorities**; Administering Authorities may want to see the detail of the promised consultation on pooling before committing. Over the long term, pooling with the ceding authority could turn out to be better or worse for the Academy than paying a contribution based on being a stand-alone employer.

For existing academies, there may need to be a revision of the rates currently paid to reflect the existence of the guarantee. This would take place as part of the 2013 valuations and be reflected in rates payable from April 2014.

2013 valuation planning for Administering Authorities

The timing of this announcement during the key stage of the 2013 valuation process means that Funds must think fast on how to interpret this guarantee and how this should be reflected in funding policy.

Extension of the contribution stability mechanisms (normally reserved for the most secure employers i.e. those with tax-raising or precepting powers) to Academies may require additional analysis before you make a final decision. Existing valuation project plans should be revisited to allow for this. Valuation timescales and costs will be placed under additional pressure from the planned consultation on pooling arrangements for Academies.

The timing of these developments is difficult (especially as these issues have been known but unresolved for several years now). If there was ever a time to be flexible with project plans it is now! We can help you consider the various options for contribution setting.

FRS17 results as at 31 August 2013

As the cost of benefit disclosed in each reporting entity's FRS17 report represents the cost of benefits accruing over the accounting year, rather than the contribution rates being paid, there will be no impact of this guarantee on Academies FRS17 position as at 31 August 2013.

Conclusions and next steps

The proposed guarantee is a welcome development but it is limited in amount and may no longer be there when it is needed most.

The limits and conditions on the guarantee mean that the degree of security is less than for the most secure employers in the Fund.

There is no need to change approach in setting initial assets.

Administering Authorities will need to make a judgement on the extent to which this guarantee allows them to adapt their approach to setting contributions and meet the DfE's objective of paying similar rates to Local Authority run schools.

Some Academies may ask questions about retrospective adjustments once any new policy is implemented.

A further consultation on pooling is expected. Administering Authorities may want to delay a final decision on changes in contribution policy for academies until that consultation is completed.

The timing of the announcement means that this can all be factored into contribution strategy decisions later this year as part of the 2013 valuation exercise which will determine contribution rates from April 2014.

If you would like to find out more, please get in touch with your usual Hymans Robertson contact.

Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Statement of Investment Principles

Purpose of the Report

1. This report provides Members with an annually updated Statement of Investment Principles (SIP) for the Wiltshire Pension Fund. The Fund has recently undertaken some changes to its asset allocation and the SIP has been updated to reflect the changes agreed.

Background

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

The 2013 SIP

3. The SIP for the Wiltshire Pension Fund has now been refined a number of times and this latest version is fully updated to take account of all the revisions to the Investment Strategy agreed to date.

4. The main change since the publication of the previous SIP is the impact of the recent changes agreed by Committee to the asset allocation. The SIP reflects the changes agreed. At the February/June 2013 meeting the Committee resolved:

    - to terminate the Edinburgh Partners mandate (7.5% of the Fund's assets and place these assets in the Fundamental Indexation mandate (with L&G);

    - to agree a strategic allocation of 10% to an Emerging market Equity/Debt product for the funds placed temporarily with Legal & General (Passive Global Equities) and for officers to commence the appropriate procurement process to enable a suitable manager to be appointed by the Committee;

    - to terminate the Jubilee Advisors (formally Fauchier Partners) mandate (5% of the Fund's assets) and place these assets temporarily with Legal & General (Passive Global Equities) mandate; and

    - to agree up to a 5% initial allocation for the purpose of Opportunistic Investing.

5. The SIP also discusses the voluntary requirement of the Fund to produce a compliance statement with the Stewardship Code which was introduced in 2010. This outlines how institutional investors disclose and discharge their stewardship responsibilities with reference to the assets it owns. A revised code came into effect October 2012. The Fund first published a statement in September 2011 and

an updated statement is attached in Supplement 2 to reflect the revisions to the Code.

6. There is also a requirement to report the Fund's compliance in line with the 6 revised Myners principles. These 6 principles are a re-presentation of the 2002 ones with a stronger emphasis on training and development of Members and officers, the involvement of and communication with stakeholders, performance management of the committee itself and of its advisors and a framework for measuring risk and the strength of the covenants of employers. Funds need to demonstrate compliance with these principles or explain the reasons why not.

7. The Fund is compliant with five out of the six principles, while there is an area that still requires development within principle 4. To be fully compliant the implementation of a formal assessment of its advisers to ensure the cost, quality and consistency of the advice is monitored is required.

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

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

9. This paper does state the Environmental, Social & Governance policy of the Fund, where the Fund expects its Investment Managers to take account of social, environmental & ethical considerations in the selection, retention & realisation of investments.

Proposal

10. The Committee is asked to approve the 2013 Statement of Investment Principles.

MICHAEL HUDSON
Service Director - Finance

Report Author: Catherine Dix, Fund Investment & Accounting Manager

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

Appendix A – Statement of Investment Principles

Statement of Investment Principles

Introductory Comment

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

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

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

Following the financial crisis one of the recommendations of the Walker review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement. At the start of July 2010 the FRC published the Stewardship Code, whilst principally aimed at asset managers, other institutional investors - including pension funds - were encouraged to report under it. Wiltshire Pension Fund published the Fund's compliance statement in September 2011, this statement has be updated to comply with the revised Code which came into effect October 2012.

Michael Hudson
Director of Finance
July 2013

Background to the Wiltshire Pension Fund

Outline of Local Government Pension Scheme

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

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

Role of the Administering Authority

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

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

Objectives of the Pension Fund

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

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

Liabilities of the Pension Fund

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

Objectives of Investment Policy

The basic objective of LGPS pension fund investment is to minimise the level of contributions paid into the Fund by employer bodies to ensure its solvency. The primary requirement of investment policy will therefore be to achieve a real return over the long term which is over and above both the rate of both wage and price inflation.

Funding Strategy Statement

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

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

b) *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*

c) *to take a prudent longer-term view of funding those liabilities."*

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

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

Investment Powers

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

Responsibility for Decisions

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

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

Policy on Investments

Types of Investments held

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

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

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

Balance between the Various Types of Investments

An explanation of the relative amount to be invested in each type of investment is provided in the Section below on the strategic benchmark adopted by the Committee (see "Overall Investment Strategy"). In very broad terms, the result is that the Fund is to be invested 60% in equities, 15.5% in bonds, 13% in property and 11.5% in Alternatives. However, that does not mean that these percentages need to be rigidly maintained.

Expected Returns on Investments

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

Risk Control

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

Key themes were considered during the latest review including return generation, inflation protection, nimbleness and illiquidity/Cashflow management.

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

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

Realisation of Investments

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

Environmental, Social and Governance (ESG)

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting to Pensions & Investment Research Consultants Limited (PIRC) who provides a global proxy service for the Fund using PIRC Shareholder Voting Guidelines that are approved by the Fund. The Fund receives proxy research and voting recommendations for each company AGM and EGM holding the Fund has that can be voted.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities on corporate governance issues. The Forum currently has 56 member funds with assets of more than £115 billion.

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

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

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

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code is currently on a voluntary basis. The Wiltshire Pension Fund published its statement of compliance with the code during 2011 and this is reviewed annually. All of our global equities managers currently comply fully with the code. The Fund's compliance statement can be found at the end of this document in Supplement 2.

Securities Lending

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

Other Matters

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

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

Current Investment Strategy

Solvency Position of the Wiltshire Pension Fund

The results of the actuarial valuation of the Fund as at 31 March 2010 showed that Fund liabilities totalled £1,563 million, whilst assets stood at £1,167 million. The Fund therefore had a deficit of assets of £396 million, or expressed another way, had a solvency level of 75%. This compared with a solvency position at 31 March 2007 of 85%. This decrease of 10% places Wiltshire Pension Fund broadly in line with the average LGPS scheme. The next actuarial valuation is currently underway as at 31 March 2013.

Funding Policy

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

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

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

- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

- to help employers recognise and manage pension liabilities as they accrue;

- to maximise the degree of stability in the level of each employer's contributions to the extent that the Administering Authority (in consultation with the actuary) is able to do so in a prudent and justifiable way;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and

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

Fulfilment of Funding Strategy through Investment Strategy

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

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

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

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

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

Investment Goal

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

Investment Strategy

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

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

- Allocations to more diversified and less correlated asset classes such as bonds, property, infrastructure, and absolute return products to achieve to achieve stabilisation; and

- The achievement of some “alpha” (manager) returns independently of “beta” (market) returns, through high alpha equity strategies.

In terms of equity investment, there is significant concentration in the UK market and many of the larger companies in the UK Index derive a high proportion of their earnings overseas, so the extent to which they should be regarded as UK companies is questionable. As a consequence, the Fund’s proportion invested in UK equities has gradually been reduced to approximately 31% of total equity holdings, with a corresponding increase in the proportion invested in overseas/global equities, which now stands at 69%. Moving forward this will further reduce to 29% UK Equities/71% overseas/global equities.

In the summer of 2011 a review of the current investment arrangements was commenced in light of investment managers’ performance. The strategic asset allocation of the Fund changed a little as a result however a number of new manager searches followed from the review. The Committee resolved:

- an aspiration to move the Fund’s equities split to 30% UK/70% overseas as opportunities arise from changes in the equities mandates;

- to remove the 12.5% limit for new investment mandates and to set a limit of 20% for a single active manager and 30% for a passive manager;

- to implement a dynamic currency hedging programme;

- to make a strategic allocation of 10% to an Absolute Return Fund Mandate;

- to make a strategic allocation of 5% to an infrastructure manager;

- to make a strategic allocation of 5% to a global equities passive ‘fundamental’ index product;

- to hold a passive global equities allocation of 10% on a temporary basis;

These changes were implemented during 2012/13.

At the February/June 2013 Committee meeting further changes were made to the strategic allocation moving forward. These would be implemented in the coming months.

At the February/June 2013 meeting the Committee resolved:

- to terminate the Edinburgh Partners mandate (7.5% of the Funds assets and place these assets in the Fundamental Indexation mandate (with L&G);

- to agree a strategic allocation of 10% to an Emerging market Equity/Debt product for the funds placed temporarily with Legal & General (Passive Global Equities) and for officers to commence the appropriate procurement process to enable a suitable manager to be appointed by the Committee;

- to terminate the Fauchier Partners mandate (5% of the Fund's assets) and place these assets temporarily with Legal & General (Passive Global Equities) mandate; and

- to agree up to a 5% initial allocation for the purpose of Opportunistic Investing.

This means the Fund's asset allocation will change as follows:

Asset Allocation	**At 31 March 2013**	**Moving Forward**
Equities: Long-Only UK* Overseas (Global)** Absolute Return (Lower Volatility) Emerging Market Multi Asset	 12.5% 37.5% 10.0% 0.0% 60.0%	 12.5% 27.5% 10.0% 10.0% 60.0%
Bonds	15.5%	15.5%
Property	13.0%	13.0%
Alternatives: Long-short Equities – Global Infrastructure M&G Financing Fund Opportunistic Investment	 5.0% 5.0% 1.5% 0.0% 11.5%	 0.0% 5.0% 1.5% 5.0% 11.5%
	100.0%	100.0%

* (sits at approximately 15.5% moving to 14.7% if including the UK element of the global mandates)
** (includes active, and fundamental indexation)

Investment Management Mandates

The allocation of mandates to managers is as follows:

MANAGER/MANDATE ALLOCATION	**At 31 March 2013**	**Moving Forward**
Baillie Gifford Global Equities	 15.0%	 15.0%
Legal & General Passive UK Equities	 12.5%	 12.5%

Passive Global Equities Passive Fundamental Equities Passive Index-Linked Bonds (UK)	10.0% 5.0% 5.0%	0.0% 12.5% 5.0%
Barings Absolute Return Fund	10.0%	10.0%
Western Asset Management Corporate Bonds (UK & Overseas)	10.5%	10.5%
Emerging Market Multi Asset Mandate	0.0%	10.0%
CBRE Global Multi Manager Property Fund of Funds (UK & Europe)	13.0%	13.0%
Edinburgh Partners Global Equities	7.5%	0.0%
Jubilee Advisors Equity Long-Short Fund of Funds (Global)	5.0%	0.0%
Partners Group Infrastructure	5.0%	5.0%
M&G Investment Management UK Companies Financing Fund	1.5%	1.5%
Opportunistic Investment	0.0%	5.0%
TOTAL	**100.0%**	**100.0%**

Timeframe for Investment Managers' Targets

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

Review and Policy

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

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

The Committee also formally reviews its investment strategy once a year although given the scale of the recent changes time will need to be given to allow the new arrangements to work. The next formal review will take place following the 2013 triennial valuation.

Other Matters

Fee Structures

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

Supplement 1

The Myners Principles
Compliance with Investment Principles for Defined Benefit Schemes

1. Effective decision-making

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**

- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

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

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

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

The Committee does have a clear commitment to training. All Committee Members are given induction training and are supplied with a Members' handbook outlining their responsibilities, how the Fund is governed and its operations. A self assessment audit was undertaken of Members during July/August 2010, this identified areas for further development. As a result a Members training plan was also adopted by the Committee in December 2010 which covers the period 2011-2013 to ensure Members have knowledge of background issues to enable them to make informed decisions.

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

The Committee has adopted the CIPFA Knowledge and Skills Framework (KSF). This specifically focuses on the roles of the Chairman, Vice Chairman, Members of the Committee, Chief Finance Officer, Head of Pensions, Pension Fund Accountant and Investment officers.

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

2. Clear objectives

- **An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on the local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisors and investment managers.**

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

3. Risk and Liabilities

- **In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.**

- **These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**

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

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

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

4. Performance Assessment

- **Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.**

- **Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members**

The Wiltshire Pension Fund is fully compliant with this principle with reference to measuring performance of investments and investment managers, however the Fund is partially compliance in respect of measuring the performance of advisors and the Funds Committee's effectiveness.

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

The Committee believes that its effectiveness can ultimately be measured by the level of success achieved in minimising and stabilising the level of contributions paid into the Fund by employing bodies to ensure its solvency. Work remains on-going to achieve this aim while the Governance Compliance Statement in conjunction with the continued adoption of CIPFA's Knowledge and Skills framework standards will ensure the continue effectiveness of the Committee.

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

5. Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents**

- **Include a statement of their policy on responsible ownership in the statement of investment principles**

- **Report periodically to scheme members on the discharge of such responsibilities**

The Wiltshire Pension Fund is fully compliant with this principle. The Fund manages its ownership responsibilities through its partnership with PIRC. PIRC's voting guidelines are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practise in corporate governance also in some areas goes beyond the existing legal and regulatory requirements.

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

The Fund undertakes its engagement activities through its membership of the Local Authority Pension Fund Forum in conjunction with expectations of its asset managers to report on their engagement activities on a regular basis. Further details are contained within the SIP which is available to all stakeholders. The Fund has also produced a compliance statement in respect of the Stewardship Code.

6. Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives**

- **Provide regular communication to scheme members in the form they consider most appropriate.**

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

- Governance Compliance Statement
- Pension Fund Annual Report
- Funding Strategy Statement
- Communications Policy
- Statement of Investment Principles
- Reports under the Stewardship Code

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

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

Supplement 2

UK Stewardship Code – Wiltshire Pension Fund Response

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Wiltshire Pension Fund takes its responsibilities as a shareholder seriously. Various policy documents are produced which identify how we meet our Stewardship responsibilities including our Statement of Investment Principles and Governance Compliance Statement.

In practice the Fund's policy is to apply the Code both through its arrangements with asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition expects its Asset Managers to take account of social, environmental and ethical considerations when making investment decisions. The objective of LAPFF is to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the forum brings together a diverse range of local authority pension funds with combined assets of over £115 billion. We also have amended our Statement of Investment Principles in recognition of the Stewardship Code.

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this in Partnership with Pensions & Investment Research Consultants Limited (PIRC) as set out above.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Wiltshire Pension Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interests. The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

All equity managers are instructed to vote in line with PIRC recommendations. Should a conflict arise the asset manager would notify the Fund and the ultimate decision would be made by officers in consultation with the Chairman of the Pension Committee.

In respect of conflicts of interests within the Fund, Committee members are required to make declarations of interest at the start of all meetings. A public register of interest is also maintained for all Councillors.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on engagement activities.

Reports from our asset managers detailing engagement activities are available for the Pensions Committee on a quarterly basis.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. See above.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code.

Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the Local Authority Pension Fund Forum. When this occurs the Chairman of the Pension Committee in communication the Vice Chairman, Chief Finance Officer and Head of Pensions will decide whether to participate in the proposed activity.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

Wiltshire Pension Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Wiltshire Pension Fund committee have reviewed and agreed to adopt PIRC's shareholder voting guidelines. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service across the holdings of all our global equity managers.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

Wiltshire Pension Fund annually reviews and updates it's Statement of Investment Principles, which sets out the Fund's approach to responsible investing. The activity undertaken by the Local Authority Pension Fund Forum is regularly made available to Committee and in addition reported in the Fund's Annual Report and Accounts.

Wiltshire Pension Fund
July 2013

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Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Proposed Terms Of Reference For The Investment Sub-Committee

Purpose of the Report

1. The purpose of this report is to agree the Terms of Reference for an Investment Sub-Committee (ISC) to consider opportunistic investment proposals.

Background

2. At the Committee meeting on 4 June 2013, it was agreed to set up an ISC for the sole purpose of considering medium term (3-7 years) opportunistic investments. These investment opportunities' can only be considered if it they are expected to provide a more attractive risk/reward profile than passive global equities.

3. To take advantage of these opportunities, it may require a decision outside the regular scheduled committee meetings to enable the Fund to act quickly in times of a limited window of opportunity in the markets.

4. The ISC's ability to make delegated decisions would only be in relation to the Fund's strategic asset allocation to Opportunistic Investing which is limited up to a total of 5% of the total assets (circa. £65m).

Consideration for the Committee

5. The rationale for opportunistic investing was outlined in the report by Mercers attached to Agenda Item 15 at the 4 June 2013 meeting. In summary the objective is to capitalise on ideas / themes that look attractively valued on a medium term investment horizon (typically 3-7 years). The intention is that one or two ideas might be considered a year.

6. The expectation is that in most cases the Fund's investment adviser (Mercers) will approach the ISC with ideas, or the main committee may suggest ideas for further research. Therefore, meetings will only take place when required.

7. Mercers would highlight a case to officers for an investment opportunity, with an assessment against set objectives and criteria along with a plan / timetable for implementation.

8. A paper would then be circulated to all members of the Wiltshire Pension Fund Committee and a meeting of the ISC called to discuss the investment case in more detail with a decision to be made to proceed with this investment based on a majority decision.

9. All members of the main committee will be able to attend the meetings or submit comments for consideration but only the membership of the ISC will be eligible to vote.

10. If an opportunity was considered investable then the ISC would agree the most suitable method of investing to ensure a robust process for selecting a product appropriate to the timeframe for this window of opportunity.

11. The Appendix outlines the proposed Terms of Reference (TOR) for the Investment Sub-Committee. The key areas have been summarised below.

Purpose

12. The ISC will be responsible for considering opportunistic investments for assets limited in cumulative value to 5% of the Fund's strategic allocation, using its delegated powers to agree whether to make an investment and to select an appropriate investment vehicle when necessary following a selection process.

13. The ISC may also be occasionally requested to by the Wiltshire Pension Fund Committee to undertake research and report back on a specific investment areas.

Membership

14. The membership will consist of 3 members from the Wiltshire Pension Fund Committee, namely the Chairman, Vice-Chairman and one other co-opted member. Other members to included the Investment Adviser, Independent Governance Adviser, Director of Finance, Head of Pensions and Fund Investment & Accounting Manager.

15. Any member from the Wiltshire Pension Fund may also attend in a non-decision making capacity.

Voting Rights

16. The three members of the Wiltshire Pension Fund will have voting rights with any decision made on a majority basis having taken appropriate advice from the Committee's advisers and officers

Powers

17. The ISC will have delegated authority from the Wiltshire Pension Fund Committee to make opportunistic investments and to disinvest in line with the TOR outlined in the Appendix that meet the specific criteria. The ISC has no remit to make any other investment decisions which will be dealt with by the main committee.

Environmental Impact of the Proposals

18. There are no environmental impacts from these proposals.

Safeguarding Considerations/ Public Health Implications/ Equalities Impact

19. There are no known implications at this time.

Risk Assessment

20. The implementation of the ISC is designed to mitigate the risk of poor investment returns as highlighted within PEN007 of the Risk Register elsewhere on this agenda.

Legal Considerations

21. There are no legal implications other than the amendments to the Wiltshire Pension Fund delegations and reporting structure as outlined in the body of this report.

Financial Considerations

22. The financial implications of the ISC would be minimal and dependent on the number of formal meetings required each year. However, costs for these meetings should not be excessive and funded from the existing administration budget.

Reasons for Proposals

23. The implementation of the ISC will enable the Fund to take advantage of medium term investment opportunities which might only exist for a short timeframe by using this more flexible governance arrangement as and when needed.

The Proposal

24. The Committee is asked to approve the setting up of an Investment Sub-Committee for the purpose of Opportunistic Investing based on the Terms of Reference on the attached Appendix.

MICHAEL HUDSON
Service Director - Finance

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

Appendix A – Draft Terms of Reference

APPENDIX

WILTSHIRE PENSION FUND INVESTMENT SUB-COMMITTEE (ISC)

Membership:

Voting Members:

(i) Chairman of the Wiltshire Pension Fund Committee (or in their absence another Wiltshire Council member of the Wiltshire Pension Fund Committee appointed by the Head of Democratic Services)

(ii) Vice-Chairman of the Wiltshire Pension Fund Committee (or in their absence another Wiltshire Council member of the Wiltshire Pension Fund Committee appointed by the Head of Democratic Services)

(iii) A Member of the Wiltshire Pension Fund Committee as co-opted by the Wiltshire Pension Fund Committee. The intention is this will be the same person for each meeting (or in their absence another member of the Wiltshire Pension Fund Committee appointed by the Chairman and Vice Chairman)

Non-Voting Members

(i) Investment Adviser to the Wiltshire Pension Fund Committee
(ii) Independent Governance Adviser to the Wiltshire Pension Fund Committee
(iii) Director of Finance, Wiltshire Council
(iv) Head of Pensions, Wiltshire Council
(v) Fund Investment & Accounting Manager, Wiltshire Council

Observers

(i) Any member from the Wiltshire Pension Fund Committee is invited to attend in a non-voting capacity as relevant to the subject matter.

Quorum:

The Quorum is three voting members.

Purpose:

The ISC will be responsible for considering and determining opportunistic investments for assets limited in cumulative value to 5% of the Fund’s strategic allocation, using its delegated powers to agree whether to make an investment and to select an appropriate investment vehicle when necessary following a selection process.

The ISC may also be occasionally requested to by the Wiltshire Pension Fund Committee to undertake research and report back on a specific investment areas.

All decision taken will be reported back to the next available ordinary meeting of the Wiltshire Pension Fund Committee in the form of the minutes if the ISC.

Authority:

To discharge the functions of the Wiltshire Pension Fund Committee in regard to opportunistic investments up to 5% of the Fund's strategic asset allocation.

Terms of Reference:

1. The ISC, will be responsible for:

   1.1 Reviewing proposals put forward by either the Fund's adviser, officers or the Wiltshire Pension Fund Committee in regards to potential opportunistic investments;

   1.2 Considering only investments that have the potential to deliver more favourable returns than global passive equities which will be the benchmark for success;

   1.3 Considering only investment that have between a 3 to 7 year time horizon and investments must be redeemable after 7 years as a maximum;

   1.4 Making decision to invest in an investment that meets the criteria listed in point 1.1 - 1.3;

   1.5 Agreeing the most appropriate procurement process for delivering an agreed investment outlined in 1.4;

   1.6 Making an appointment in the relevant investment fund on conclusion of a robust process for selection;

   1.7 Reporting the outcome of the use of any delegated powers or to make recommendation (where appropriate) to the next meeting of the Wiltshire Pension Fund Committee;

   1.8 Making a decision to disinvest in any investment appointed by the ISC with any realised assets being either re-invested in another appropriate vehicle that complies with 1.4 or to be held with the passive global equities allocation;

   1.9 Researching and providing a report back to the Wiltshire Pension Fund Committee on any specific investment areas requested.

2. In order to achieve this the ISC will

   2.1 Receive reports from either the Investment Adviser, officers, Independent Governance Adviser outlining the case for an medium term investment opportunity which will also be circulated to all Members of the Wiltshire Pension Fund Committee;

2.2 Receive advice from Investment Advisers, Independent Governance Adviser, officers or any other product specialist invited by the ISC to the meeting;

2.3 Receive monitoring reports when appropriate on investments to inform decision making;

2.4 Work within the framework set by the Council's Constitution;

2.5 Report to the Wiltshire Pension Fund Committee as necessary on its activities and use of delegated powers;

2.6 Investigate other specific areas of investment when requested by the Wiltshire Pension Fund Committee.

Frequency of meetings:

Ad hoc formal meetings as merited in order to utilise the delegated powers to make a decision, with informal meetings as required discussing background issues / seeking clarification prior to any decision being taken.

All meetings will be subject to 5 clear days notice of meeting and access by the public to part 1 and part 2 items as applicable.

Wiltshire Council

Wiltshire Pension Fund Committee

25 July 2013

Local Government Pension Scheme Reforms Update

Purpose of the Report

1. This report updates Members on the latest developments relating to the proposed reforms to the Local Government Pension Scheme (LGPS) and outlines the current consultations that are taking place.

Background

2. On 4 June 2013 this meeting was provided with an update on the developments with regards to the LGPS 2014 reforms. This paper outlines the activity since the last meeting.

3. It was also agreed at the June meeting to nominate either the Chair or Vice-Chair as potential members of the national shadow Scheme Advisory Board (SAB) and the relevant officers for the practitioners' sub-committee roles.

Considerations for the Committee

Shadow Advisory Board appointments

4. The Public Service Pensions Act 2013 introduces a requirement for public service pension schemes to have a Scheme Advisory Board from 2015 (in preparation they are currently creating a Shadow SAB). For the Local Government Pension Scheme (LGPS) this will operate at the national (England and Wales) level and would be in addition to the local scheme boards that as discussed at the last meeting will need to be set up after April 2014.

5. The Scheme Advisory Board's core role will be a responsibility for providing advice to the Secretary of State (upon request), the Pensions Regulator and to local pension boards and scheme managers to improve the effective administration, governance, performance and cost management of the LGPS. Under the Act, the statutory LGPS Scheme Advisory Board will have no statutory powers of its own but rather would seek to work with existing regulatory and advisory bodies to achieve its objectives.

6. Following the last meeting, the Wiltshire Pension Fund nominated the following to the shadow Scheme Advisory Board and its sub-committees:

   - Councillor Tony Deane - shadow Scheme Advisory Board
   - David Anthony, Head of Pensions – Governance & Standards Sub-Committee
   - Catherine Dix, Fund Investment and Accounting Manager – Cost Management & Contributions Sub-Committee

- Tim O'Connor, Technical & Compliance Manager – Value for Money & Collaborations Sub-Committee

7. Following the selection process, David Anthony was appointed to the Governance & Standards Sub-Committee while Catherine Dix and Tim O'Connor where appointed as substitutes to their respective sub-committees. This is excellent news as the Wiltshire Pension Fund will now be represented at a national level in shaping the future developments of the LGPS.

DCLG: LGPS 2014 Consultation

8. On the 20 June 2013, the Department for Communities & Local Government (DCLG) issued its third consultation on the LGPS 2014 draft regulations. This now provides greater detail in terms of how the new scheme will look and operate.

9. This is a very detailed and technical 103 page document. Therefore this has not been included within these papers. Those wishing to view it can locate it at the following website:

   https://www.gov.uk/government/consultations/local-government-pension-scheme-2014

10. The consultation seeks specific comments on 8 regulations changes. Again these are technical in nature but have been included in Appendix A along with the proposed response from the Wiltshire Pension Fund.

11. The consultation period is 6 weeks, meaning comments need to be submitted by 2 August 2013.

12. There are other related proposals which are being addressed separately from this consultation. This includes a discussion paper on Scheme governance (see paragraphs below), Councillors' pensions, Fair Deal, Cost Control and Transitional Regulations. All of these have been, or will be consulted on separately. The Committee will be updated on these whenever relevant new information becomes available.

DCLG: Discussion Paper – New Governance Arrangements LGPS 2014

13. On the 20 June 2013, the Department for Communities & Local Government (DCLG) also issued a discussion paper which poses a number of questions on the new governance arrangements required for the LGPS 2014 scheme.

14. This 15 page document can be found on at the following website address:

    https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-new-governance-arrangements

15. The areas being addressed within the discussion paper are areas as follows:

- Timing of the implementation of Scheme Advisory and Local Pension Boards
- The role of the “Scheme Manager” (i.e. the local administering authority)
- Implementation of “Local Pension Boards” (i.e. the new local scrutiny board)
- Implementation of the “Scheme Advisory Board” (i.e. the national board)

16. The consultation seeks views on a list of 26 questions that have been listed in Appendix B along with the proposed responses from Wiltshire Pension Fund. Responses to this discussion paper are required by 30 August 2013.

Call for evidence on the future structure of the Local Government Pension Scheme

17. The DCLG and the Local Government Association (LGA) issued a joint call for evidence on 21 June 2013 relating to the potential for increased cooperation between LGPS funds (see Appendix C).

18. This follows on from the Local Government Minister’s statement at the National Association of Pension Fund’s local authority conference on 22 May 2013, and aims to look at the following high level and secondary objectives for structural reform :

    High level objectives
    1. Dealing with deficits
    2. Improving investment returns

    Secondary objectives
    1. To reduce investment fees
    2. To improve the flexibility of investment strategies
    3. To provide for greater investment in infrastructure
    4. To improve the cost effectiveness of administration
    5. To provide access to higher quality staffing resources
    6. To provide more in-house investment resource

19. Within any response they wish to receive evidence to support the answers to the following questions:

    Question 1 *– How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income - while adapting to become more efficient and to promote stronger investment performance.*

    Question *2 – Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?*

    Question 3 *– What options for reform would best meet the high level objectives and why?*

Question 4 *– To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?*

Question 5 *– What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?*

20. As previously outlined, the Wiltshire Pension Fund is part of the South West group of funds that have been working collaboratively for a number of years, for example the setting up of frameworks. This work continues and will form the basis of any response.

21. The closing date for submissions is 27 September 2013 and the formal response from the Wiltshire Pension Fund will be discussed at the 19 September 2013 meeting.

Councillors Access to Pensions Consultation Update

22. The DCLG have stated that they have had over 700 responses to this consultation – one of the highest, proving this was clearly a very popular consultation. DCLG intend to advise Ministers within the next few weeks, but the chances are that there may be no change to access, but the likelihood is that councillors will have to pay banded contributions similar to those that apply for the rest of the LGPS, with effect from April 2014.

Risks Assessment

23. The reforms being discussed will potentially impact on risk *PEN008: Failure to comply with LGPS & other regulations* and *PEN018 Failure to implement the LGPS 2014 Reforms* and these risks are both highlighted on the Risk Register elsewhere on this agenda. By being involved in the national shadow board and sub-committees and by responding to these consultation and discussion papers the Fund is attempting to influence and mitigate these risks as far as possible.

Safeguarding Considerations/ Public Health Implications/ Equalities Impact

24. There are no known implications at this time.

Financial Implications

25. There will be financial implications from the setting up of local pension boards (this will not be known until the outcome of the consultation) and funding the national Scheme Advisory Board should they implement a mandatory charge of approximately £3k to £5k per fund.

Reason for Proposals

26. The Fund should be proactive in shaping the future of the scheme and therefore should contribute to the consultations issued.

Proposals

27. Members are recommended to:

a) note the appointments to the shadow national Scheme Advisory Board and sub committees; and

b) agree the proposed response to the DCLG LGPS 2014 Consultation paper as per Appendix A; and

c) agree to proposed response to the DCLG: Discussion Paper – New Governance Arrangements LGPS 2014 as per Appendix B; and

d) note a proposed response to the 'call for evidence' will be presented to September 2013 Committee meeting.

MICHAEL HUDSON
Service Director - Finance

Report Author: David Anthony, Head of Pensions

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

Appendix A - Local Government Pension Scheme 2014 Consultation -List of Chapter 2 questions

Appendix B - Discussion Paper – LGPS New Governance Arrangements

Appendix C – DCLG Call for Evidence

APPENDIX A

Local Government Pension Scheme 2014 Consultation

List of Chapter 2 questions

Regulation 16 – Additional Pension Contributions

Q1. Is the Department right in saying that the take up of additional survivor benefits is extremely low?

At the Wiltshire Pension Fund we are not aware of any individual who has taken up this option.

Regulation 39 – Calculation of ill-health Pension Amounts

Q2. Should there be enhancement in this way given that there would be no equivalent protection for a member who remained in part time work rather than taking ill-health retirement?

(This regulation refers to the **'Calculation of ill-health pension amounts'** in particular the protection of pay for part time employees)

Yes, it is wholly appropriate that a member receives an enhancement to reflect the shortfall in their retirement provision when they have to retire early because of ill health, as this is out of their control.

If anything, further consideration should be given to members who remain in part time work to reflect that situation.

The question seems to suggest that the member has a choice in going on ill health retirement or continuing in part-time employment?

Regulation 51 – Guaranteed Minimum Pension (GMP)

Q3. Comments are requested as to whether this Regulation should be retained or if it would be sufficient to rely on the overriding legislation.

It would be good for administrators to have some clear, consistent and fair regulations referring to GMPs and we would suggest that these regulations, if they do not suit, are removed as they do not meet this criteria and the LGPS relies (with a cross reference in the regulations) going forward on over-riding legislation.

Regulation 54 – Admission Agreements Funds

Q4. Is there a need to provide for separate admission agreement funds to be established in the new Scheme?

(This regulation refers to - Admission agreement funds and the discretion for the establishment of a separate fund for admission bodies)

We have not seen any reason why one should be needed. However, other funds may make use of this facility.

<u>Regulation 69 - Payment by Scheme employers to administering authorities</u>

Q5. Is the list of statement items shown at Regulation 69(3) complete? If not, could you please describe what needs to be included.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—
(a) the name, pay and band (as set out in column 1 of the table in regulation 9(2) (contributions)) of each of the Scheme employer's employees who is an active member;
(b) which employees are paying contributions under regulation 10 (temporary reduction in contributions);
(c) which employees are paying contributions under regulation 16 (additional pension contributions); and
(d) the amounts which represent deductions in each of the pay bands from each of the employees and the periods covered by the deductions, distinguishing amounts representing deductions for any voluntary contributions.

This statement could include "*and any other information that the administering authority may require".*

<u>Regulation 70 - Additional costs arising from Scheme employer's level of performance</u>

Q6. Should we include provision for interest to be paid on the late payment by scheme employers? If so, what period would constitute "late"?

Yes, 1 month from the date of first request. However with interest only chargeable at 1% above the base rate a preference would be the ability to change the higher of investment return or base rate + 1% to discourage employers from trying to utilise the Fund to manage their cashflow.

<u>Regulation 88 - Pension increase under the Pensions Schemes Act 1993</u>

Q7. Should the new regulations set out what fund should pay in the case where an administering authority has more than one fund?

See our response to Q4.

<u>Regulation 91 - Forfeiture of pension rights after conviction for employment-related offences</u>

Q8. Do you think the current forfeiture provisions which have been carried forward into these draft regulations work well, or would you prefer it all to

be dealt with by the courts with the removal of the role of the Secretary of State?

They are very few examples nationally, so it is difficult to comment on. Forfeiture could be dealt with by the courts with the removal of having to apply to the Secretary of State to issue a forfeiture certificate and removes any uncertainty or an extra level of administration for the Pension Fund and provides clear lines of procedure in such cases. However, concerns would be raised over the additional cost of this for the Fund.

APPENDIX B

Discussion Paper – LGPS New Governance Arrangements

List of questions

Timing

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

The setting up of new boards requires a significant change to the constitution of the Council and also requires the need to consider who can be co-opted and / or appointed to these boards following an appropriate selection process. The specific skills set required may limit the pool of potential candidates. Effectively there are only 2 regular meetings of the Wiltshire Pension Fund committee prior to April 2014, and only 7 prior to April 2015.

With the main focus for Fund's being the implementation of the new 2014 scheme, any implementation of local pension boards prior to April 2015 will be extremely challenging. With the recent 'call for evidence' on the future structure of LGPS funds it would appear more sensible to understand the outcome of this, scheduled for summer 2014 before commencing changes to the current governance arrangements allowing a period of at least 12 months from next summer for administering authorities to be fully compliant with the governance regulations.

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

The national scheme advisory board could become operational much sooner if the shadow board and sub committees currently being formulated was to be adopted as the national scheme advisory board.

"Responsible authority" & "Scheme manager"

Q3. Please give details of any such "connected" scheme that you are aware of.

Not aware of any "connected" scheme

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

Not aware of any "connected" scheme .

"Pension Boards"

Q5. What “other matters”, if any, should we include in Scheme regulations to add to the role of local pension boards?

The role of the local Board is to act as a scrutiny function and not as a decision maker. It should therefore perhaps be left to each local board to decide how it fulfils that role within the parameters of the regulations and which matters it wishes to consider. There is no doubt however that the local Board should ensure that all the policies/statements etc required of an administering authority are in place and being referred to in the decision making.

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

This may act as a barrier and may be better mandated with the requirement for a conflict of interest policy to be published that sets out how any conflict will be managed.

Q7. Should Scheme regulations prescribe the type of information that may be “reasonably required”?

See response to Q6

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

No because this will depend on local circumstances. .

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

There remains a concern that the purpose of these local pension boards provides another level of governance which isn’t strictly required should the Local Authority have robust governance arrangements in place. If good governance arrangements are in place then is there a need for a separate local pension board? It is agreed that it’s difficult for a committee to scrutinise itself which is why an independent view is required and this could be achieved through the use of professional advisers. Therefore, in this circumstance the statutory committee and the local pension board could be the same body. This solution in itself though raises other constitutional issues from the conflict of the different applications of the differing pieces of legislation that apply.

Good governance however is about accountability and understanding and managing risk which is better suited by the separation of the two bodies.

The need to have representatives from employers and employees does prevent a Fund using its Audit committee for this purpose.

An alternative to consider is whether a local pension board can be set up to serve a number of different funds, for example for the South West. The compliance issues should be the same across all funds and providing a larger pool of knowledge and allowing greater potential for independent challenge would appear a benefit. This would also be aligned to the collaboration agenda that the Government are currently promoting.

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

The less prescriptive the better as funds will need to adapt to their own particular local circumstances depending on membership size . Allow funds to develop their approaches to implementation and then refer to “best practice” examples on which bodies such as CIPFA can issue guidance on.

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

See response to Q10 above.

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

No as this may fit local circumstances.

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

For transparency purposes a statement of the local pension board’s work should be available to all stakeholders and published.

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

There should be a statutory requirement for Funds to adhere to the code of practice and for compliance to be recorded.

<u>“Scheme Advisory Board”</u>

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

Yes at this stage replicate the wording of the Act – regulatory provisions may restrict the evolvement of the board. If it proves necessary to regulate then issue amendment regulations.

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Yes – this would be more open and allow the Scheme advisory board to take initiative in proposing or advising on change that was not political.

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

No. As long as membership of the board is appointed on a fair and transparent basis and so represents the relevant stakeholders. And see answer to Q16

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

The carrying forward of the membership of the shadow board would appear to be the natural step at this stage with a review process being adopted.

The Scheme regulations prescribing the sectors from which members of the board are drawn could be restrictive unless the board had the authority to make appropriate appointments as it saw fit in seeking specialist advice or guidance.

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

A majority form the Scheme board ought to suffice as members would be closer to the issues.

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

There should be fixed terms (potentially 4 years) of office after which, a member must stand for re-election and this should apply to all members of the board.

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

Yes, if members are failing to fulfil their duties they should be removed. Motions should be put forward by members of the board and a vote taken. Provision for such a circumstance should be required by regulation but the detail and process should be determined by the board within its constitutional rules.

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Yes to ensure the effectiveness of this board. A minimum of two should be prescribed per annum.

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?

Yes, at least 1/3rd of the board should be in attendance to be quorate.

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

The regulations should provide the broad outline as required by the Act with additional provision around tenure, otherwise all other areas could be matters for the board as long as a fair and transparent approach has been taken.

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

A mandatory approach should be taken to ensure a consistent and fair basis is applied per Fund.

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

No view

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Department for Communities and Local Government

Local Government Association

Call for evidence on the future structure of the Local Government Pension Scheme

Background

In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should investigated further. The Local Government Pension Scheme currently costs local taxpayers £6billion a year in employer contributions.

Recommendation 23*: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*

Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

On 16 May 2013, the LGA and DCLG held a roundtable event on the potential for increased co-operation within the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. 25 attendees represented administering authorities, employers, trade unions, the actuarial profession and academia.

The roundtable aimed to bring objectivity and transparency to the subject through open debate. There was a full discussion of the possible aims of reform and the potential benefits of structural change, together with the further work needed to provide robust evidence to support emerging options. The meeting focused on the issues to be addressed by reform rather than the detailed arguments for any of the potential ways forward that have been proposed.

The roundtable heard about the projects being undertaken to look at the options for structural reform of the Scheme in London and Wales and considered the range and relative priorities of the desired outcomes of reform, the data requirements for determining a start point and target and the next steps for delivering those outcomes.

On 22 May at the National Association of Pension Funds' local authority conference, the Local Government Minister Brandon Lewis said:

I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.

The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.

I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.

You will be aware that work is well underway to establish a shadow national pensions board for the Scheme. I have met with the LGA and local government trades unions on several occasions to discuss the sort of work that I would like the board to undertake.

This document sets out the call for evidence from DCLG and the LGA, working with the Shadow Scheme Advisory Board, and explains how it will feed into the forthcoming consultation.

The call for evidence

At the roundtable, the following high level and secondary objectives for structural reform were proposed:

<u>High level objectives</u>

1. Dealing with deficits
2. Improving investment returns

<u>Secondary objectives</u>

1. To reduce investment fees
2. To improve the flexibility of investment strategies

3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

The roundtable also agreed that, although there is a wide range of data available on Local Government Pension Scheme funds, it is currently widely dispersed and would benefit from enhancement, collation and further analysis. It also considered how best to achieve a high level of accountability to local taxpayers, particularly if services are to be shared or funds merged.

In your response to this call for evidence, it would be helpful if you could have particular (although not exclusive) regard to the following questions and provide evidence in the form of annexes to support your answers.

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties - including through the availability of transparent and comparable data on costs and income - while adapting to become more efficient and to promote stronger investment performance.

Question 2 – Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

Question 3 – What options for reform would best meet the high level objectives and why?

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Timetable

Responses to this call for evidence should be submitted in electronic form to Victoria Edwards at: LGPSReform@communities.gsi.gov.uk

The closing date for submissions is 27 September 2013.

The submissions will then be analysed by DCLG and the LGA, working with the Shadow Scheme Advisory Board. You may be asked to provide further clarification and/or evidence to support your answers during that process.

The analysis of submissions will then inform a formal consultation on the options for change to be published by DCLG in the early autumn.

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

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