Wiltshire Council
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AGENDA

Meeting:	Wiltshire Pension Fund Committee
Place:	Kennet Room - County Hall, Trowbridge BA14 8JN
Date:	Thursday 10 March 2016
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Libby Beale, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718214 or email elizabeth.beale@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	10 March 2016	09:30	Kennet Room

Membership:

Voting Membership
Wiltshire Council Members:
Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice Chairman)
Cllr Mark Packard
Cllr Sheila Parker
Cllr Roy While

Substitute Members
Cllr Chris Hurst
Cllr Bob Jones MBE
Cllr Gordon King
Cllr Bill Moss
Cllr Fleur de Rhé-Philipe
Cllr Ian Thorn
Cllr Philip Whitehead

Swindon Borough Council Members
Cllr Steve Allsopp
Cllr Steve Weisinger

Substitute Members
Cllr Oliver Donachie

Employer Body Representatives

Non-voting Membership
Observers
Tony Gravier
Mike Pankiewicz

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If you have any queries please contact Democratic Services using the contact details above.

Items to be considered	Time

PART I

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

1	**Membership**	**10:30am**

To note any changes to the membership of the Committee.

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

To note the attendance of any non-members of the Committee.

3 **Apologies for Absence**

To receive any apologies for absence or substitutions for the meeting.

4 **Minutes** *(Pages 7 - 20)*

To confirm the Part 1 (public) minutes of the last ordinary meeting held on 10th December 2015 and extraordinary meeting held on 1 February 2016.

5 **Chairman's Announcements**

To receive any announcements through the Chairman.

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.

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

Questions
To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Corporate Director), **no later than 5pm on 3 March 2016**. 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 **Treasury Management Strategy** *(Pages 21 - 30)* **10:40am**

A report presenting an updated Treasury Management Strategy for 2016-17 for committee approval.

9 **Pension Fund Risk Register** *(Pages 31 - 38)* **10:50am**

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

10 **Triennial Valuation Update** **11:00am**

A verbal update from the Fund Actuary outlining the process for the 2016 Valuation and the proposed approach for reviewing employers.

11 **Employers Cessation Policy** *(Pages 39 - 50)* **11:30am**

A report from the Head of Pensions presents the revised draft Employers Cessation Policy for consideration and approval by Committee.

12 **Wiltshire Pension Fund Administration Budget Monitoring** *(Pages 51 - 52)* **11:45am**

An update on the current projected outturn of the Wiltshire Pension Fund budget for Members' to note.

13 **Wiltshire Pension Fund Administration Budget 2016-19** *(Pages 53- 56)* **11:50am**

A report by the Head of Pensions outlining the proposed Administration budget for 2016-17 and planned expenditure in 2017-18 and 2018-19.

14 **Pension Website Demonstration** **12:00pm**

A presentation by the Fund's Communication Manager on the current Wiltshire Pension Fund website which provides information to members, employers and other stakeholders.

15 **Review of Actuarial, Benefits and Investment Advisers Contract** *(Pages 57 - 60)* **12:15pm**

A report by the Strategic Pension Manager outlining the initial period of the adviser contracts has expired with the option to extend for a further period of time for the Committee to approve.

16 **Update from the Local Pension Board** *(Pages 61 - 70)* **12:20pm**

The receive an update and consider recommendations from the

Local Pension Board meeting held on 14 January 2016.

17 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on 30 June 2016.

18 **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.

19 **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 20-22 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 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

20 **Minutes** *(Pages 71 - 88)* **12:30pm**

To confirm the Part 2 (confidential) minutes of the last ordinary meeting held on 10th December 2015 and extraordinary meeting held on 1 February 2016.

The Part 2 minutes and decisions of the Investment Sub-Committee meeting held on 25 February 2016 are to follow for the Committee to note.

21 **Pooling of Investments & Consultation Update** **12:30pm**

A verbal update by the Head of Pensions on the proposals for pooling in response to the Government' consultation.

22 **Investments Quarterly Progress Report** *(Pages 89 - 138)* **12:40pm**

Three confidential reports are circulated updating the Committee on the performance of the Fund's investments as to the end of December 2015. These were considered by the Investment Sub-Committee at its meeting on 25 February 2016 are circulated for information only.

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Wiltshire Council
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WILTSHIRE PENSION FUND COMMITTEE

PART 1 MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 10 DECEMBER 2015 AT SALISBURY ROOM - COUNTY HALL, TROWBRIDGE.

Present:

Cllr Steve Allsopp, Cllr Tony Deane (Chairman), Tony Gravier, Diane Hall, Cllr Charles Howard (Vice Chairman), Cllr Gordon King (Substitute), Linda Stuart, Cllr Steve Weisinger, Cllr Roy While and Cllr Philip Whitehead (Substitute)

Also Present:

Cllr Bill Moss, Howard Pearce, Barry Reed, Jim Edney, Joanne Holden, Robert Summers and Catherine McFadyen

66 Membership

There were no changes to the membership of the Committee.

67 Attendance of non-members of the Committee

Bob Summers (CIPFA), Catherine McFadyen (Hymans Robertson), Howard Pearce and Barry Reed (Local Pension Board) were in attendance.

68 Apologies for Absence

Apologies for absence were received from Michael Hudson (Treasurer to the Pension Fund), Mike Pankiewicz, Cllr Mark Packard substituted by Cllr Gordon King and Cllr Sheila Parker substituted by Cllr Philip Whitehead.

69 Minutes

Resolved:

To confirm as a correct record the Part 1 minutes of the meeting held on 1 October 2015.

70 Declarations of Interest

There were no declarations of interest.

71 **Chairman's Announcements**

The Chairman advised that the order of agenda was to be changed to allow the item on the 2016 triennial valuation to be considered following the CIPFA Business Services Update.

72 **Public Participation and Councillors' Questions**

There was no public participation.

73 **CIPFA Business Services Update**

A verbal update was provided by Bob Summers (CIPFA Business Services) on current activities and the latest developments and issues within the local Government Pension Scheme (LGPS) sector for the Committee's information. The Committee heard about the current priorities for the CIPFA Pension Panel which included comparing Funds and also measures of manager fees. CIPFA considered that the sustainability of the LGPS was increasingly on the political agenda and being called into question.

The presentation considered which bodies pension funds were currently receiving advice and direction from, the Scheme Advisory Board currently advised however the government minister and the Cabinet office was becoming increasingly influential. The Pensions Regulator (tPR) could advise funds on potential breaches of the law and GAD would review valuations given to Fund's by their actuary. The Government's proposal on asset pooling was discussed, CIPFA queried where the aspirational £25bln total per pool had been drawn from and whether only 6 pooled funds would be permitted nationally. Concerns were also raised over the resource required to set up the pooled funds and the imposition of investment in infrastructure forced upon Funds. It was felt that there should be more emphasis on the improved performance rather than the cost savings that could be achieved by pooling.

The Committee was updated on investment regulations; a best practice guide on investment management costs was available from CIPFA. Members were advised on issues arising from the separation of funds from the local authorities that administered them, a particular issue was the dilution of the role of the S151 officer. The Institute was also concerned with the impact of resource constraints in local authorities affecting the ability of funds to recruit staff in tandem with increasing demand on resource to establish Local Pension Boards.

The Chairman thanked Bob Summers for the informative presentation and agreed that in the current climate the LGPS was high on the political agenda. It was acknowledged that with many changes in the LGPS at present time there was much business for the Committee to consider. Members discussed the flexibility of the pooling of assets.

The Committee thanked Bob for his years of support to the Fund and wished him an enjoyable retirement.

Resolved:

To note the update.

74 **Exclusion of the Public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in minute number 75 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.

75 **Triennial Valuation 2016- Actuarial Assumptions**

The Committee considered the proposed approach and key assumptions the Actuary intended to take in relation to the 2016 Valuation.

Resolved:

To note the attached reports and the basis for the key assumptions with reference asset out performance and pay growth to be used at the 2016 Valuation.

76 **Inclusion of the public**

Resolved:

To include the public in discussions of items numbers 77-89 due to their being no exempt information.

77 **Update on the Current Governance Consultations**

David Anthony, Head of Pensions, updated on the latest consultation from the Government on investment reform criteria and guidance and the Investment Regulations for the Committee to consider.

The Government was currently exploring asset pooling with a view to saving fees from investment managers and encourage investment in infrastructure.

The Fund was currently considering its response to the consultation and would hold a special meeting of the Committee in the New Year to discuss this.

The independent advisor to the Fund highlighted the need for the Fund to respond to the details of strategic asset allocation remaining with the Fund in the event of pooling. Currently the proposals included that only the decision on allocation between bonds and equities would remain with the Fund.

Members considered that the choice of investments for funds should not be tied to infrastructure but should be based on investments to bring the best return. Managers were currently not attracted to investment in UK infrastructure and the Committee agreed some support from the Government would be needed to encourage this.

Resolved:

To note the update and consultation documents.

78 **<u>CIPFA Benchmarking Review</u>**

A paper and report was circulated by Catherine Dix, Strategic Pension Manager, which compared the administration performance of the Fund in line with the CIPFA Benchmarking club for Members information.

Key updates included that the total administration cost per Fund member was slightly higher than the CIPFA average and the proportion of active members was similar at around 34%. Wiltshire Pension Fund was slightly higher than average in relation to members joining the scheme, however the Fund appeared to be average on the number of retirements, deaths and other leavers it processed. In terms of staffing, overall costs remained broadly in line and managers were focussing on increasing the level of relevant qualifications in teams. Sickness levels had been higher than industry average due to long term sickness.

Resolved:

To note the report.

79 **<u>Business Plan Update</u>**

A report updated the Committee on the implementation of actions contained within the Business Plan.

Officers updated on outstanding actions and reassured that these were not business critical. Progress had been hindered by the additional resource needed recently and lower staffing levels, officers were confident that actions would be taken over the next few months.

Action 11, the implementation of regular covenants and risk reviews of employer bodies, was a priority and the Fund was working closely with the Actuary to develop this. Action 14, the implementation of Bi-annual Performance Reporting, would be brought to a future meeting of the Committee and the Local Pension Board, the newly appointed Fund Development Manager would progress this.

Resolved:

To note the updated position of the actions completed from the Business Plan to date.

80 **Pension Fund Risk Register**

Members considered an update on the Wiltshire Pension Fund Risk Register. Three new risks had been added: LGPS Asset Pooling, Implementation of the Public Sector Exit Cap and Guaranteed Minimum Pension Reconciliations. The Committee heard that an Employer Relations Manager had been appointed.

It was considered that there was now increased pressure on member and officer time to digest and produce reports to the Committee. The Committee agreed that this should be added to the Risk Register and officers should make more use of web links were possible to reduce the length of paperwork at meetings.

Resolved:

To note the attached Risk Register and measures being taken to mitigate risks.

To add the expansion of business items at Committee to the Risk Register.

81 **Internal Audit Report**

A report updated the Committee on the actions taken to date on the recommendations within the SWAP internal audit report of the Fund.

Resolved:

To note the updated position of the internal audit action plan.

82 **Pension Administration Strategy**

A report from the Head of Pensions introduced an updated Pension Administration Strategy for Committee consideration. The strategy set out performance standards and actions to be taken against employers not meeting expectations. The Strategy was last considered in 2010 and was now due to be refreshed, considering new requirements from tPR. The document had been circulated to employers and a training session would be provided for them, however the updated strategy was not significantly different to the existing policy.

Resolved:

To approve the Wiltshire Pension Fund Administration Strategy.

83 **<u>Administration Authority Discretions</u>**

A report from Craig Payne, Technical & Compliance Manager, proposed an update to the Administration Authorities discretions for Committee consideration. The LGPS regulations dictated and stated the benefits of the pension scheme however the Regulations also provided scope for certain decisions to be made by the Fund or employers, discretions had been permitted since 1997.

The discretions previously agreed by the Committee were still in place however needed to be updated and added to following new LGPS regulations. An overview of the key new and updated discretions was provided and the Committee was invited to ask questions. It was confirmed that under discretion 22 ‘Whether to suspend an employer’s obligation to pay an exit cap payment where they are likely to have active members again’ the Fund could delay exit payments to employers without any active members if it was likely that new active members would be joining again. Members considered the limited occasions where discretions on compassionate grounds may be determined by Committee. The Committee discussed the future potential for late contributions from employers and were advised that interest could be added to late contributions.

Resolved:

To approve the updated Discretions Policy Statement.

84 **<u>Local Pension Board update</u>**

The Committee considered the minutes and recommendations of the Local Pension Board meeting held on 22 October 2015 and the Board’s work plan. A notable update from the Board was that Kirsty Cole had resigned her position and a replacement would be recruited. Howard Pearce, Chairman of the Local Pension Board, introduced himself, he was also the Chairman of the Berkshire and Avon Local Pension Boards and hoped to bring knowledge and expertise from other funds.

Resolved:

To note the minutes and recommendations from the Local Pension Board meeting held on 22 October 2015.

85 **<u>Local Pension Board: Conflict of Interest Policy</u>**

The Committee considered the Code of Conduct and Conflict of Interest Policy of the LPB. The Policy would apply to all members, as currently only the elected member on the Board was subject to such a policy. The policies had been developed in consultation with Hymans Robertson and Legal Services at Wiltshire Council, and had been endorsed by the Local Pension Board.

Questions were raised over whether members would be bound by confidentiality and it was confirmed that this was implicit in the principles of public life which formed the basis of the code of conduct. Additionally, section 1 of the Code of Conduct had guidance dedicated to this issue and explicitly stated that information provided to a Board member in the course of his or her duties would be confidential and must only be used for the purposes of the Board.

Resolved:

To approve the Code of Conduct and Conflict of Interest policy guidelines.

86 **<u>Local Pension Board: Breaches Policy</u>**

The Committee was requested to approve the Breaches Policy, recommended by the Local Pension Board, to ensure statutory requirements for reporting now imposed by the Pension Regulator could be met. The Breaches Policy Guidelines set out a framework for the Fund to identify, manage and where necessary report breaches of the law applying to the management and administration of the Fund.

The Committee was asked to consider in particular whether breaches should be reported by the S151 Officer, as recommended in the draft guidelines, or the Monitoring Officer. It was agreed that the S151 officer should be responsible for reporting breaches to tPR since this officer understood the administration of the Fund and already managed the potential conflict of being Treasurer to the Fund aswell as S151 officer. Additionally, reports to tPR would usually take legal advice from the Monitoring Officer in addition to the S151 officer. In the event of a material breach of the law, this would be reported to the Head of Pensions, Pension Fund Committee, Local Pension Board, S151 Officer and the Regulator. Members agreed that a summary of the Fund's breaches would be provided in the Annual Report and thereby on the Fund's website. Local Pension Board members had received training on breaches and Committee members were also requested to undertake this

Resolved:

To approve the Breaches Policy Guidelines and recommend adoption for the Wiltshire Pension Fund;

To agree that a summary of breaches are published in the Fund's Annual Report and on it's website;

To undertake further training on the Breaches Policy as part of Members Training Plan.

87 **Date of Next Meeting**

The next ordinary meeting of the Committee was to be held on 10 March 2016, however a Special Meeting was expected at the end of January 2016.

88 **Urgent Items**

There were no urgent items.

89 **Exclusion of the Public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 90- 93 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.

90 **Barings- Review of Mandate**

A confidential paper from the Strategic Pension Manager outlined the recent performance of Barings. Representatives from Barings presented to the Committee to outlining their performance over the past 12 months and plans for 2015/16 for the Committee to consider.

Resolved:

To note the report and the update provided by Barings at the meeting.

To continue with the Barings DAAF mandate and reaffirm the Committee is content to rely on the current trigger mechanism for future disinvestment should their Fund fall below £1.8bn.

91 **Minutes**

Resolved:

To approve the Part 2 minutes of the meeting held on 1 October 2015.

92 **Investment Quarterly Progress Report**

Confidential reports updated the Committee on the performance of the Fund's investments as to the end of September, the minutes and recommendations of the Investment Sub-Committee were also circulated for the Committee's information.

Resolved:

To note the investment reports and updates provided by officers.

93 **South West Pooling of Investment Assets Update**

The Head of Pensions updated on the proposed pooling of LGPS assets in the South West as a response to the Government's consultation.

Resolved:

To note the update.

To request that the feasibility study be circulated to the Committee and the finalised options report be available to the Chairman and Vice-Chairman prior to their meeting on 7 January 2016.

(Duration of meeting: 10.00 am - 3.00 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services, direct line 01225 718214, e-mail elizabeth.beale@wiltshire.gov.uk

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

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WILTSHIRE PENSION FUND COMMITTEE

PART 1 MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 1 FEBRUARY 2016 AT KENNET ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.

Present:

Cllr Tony Deane (Chairman), Diane Hall, Cllr Charles Howard (Vice Chairman), Cllr Mark Packard, Mike Pankiewicz, Cllr Sheila Parker, Cllr Roy While, Michael Hudson, Joanne Holden and Jim Edney.

Also Present:

Cllr Gordon King, Cllr Bill Moss and Barry Reed

1 **Membership**

There were no changes to the membership of the Committee.

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

Barry Reed (Local Pension Board member) and substitute members of the Committee, Cllr Bill Moss and Cllr Gordon King were in attendance.

3 **Apologies for Absence**

Apologies for absence were received from Linda Stuart, Cllr Steve Weisinger, Cllr Steve Allsopp and Howard Pearce (Chairman of the Local Pension Board).

4 **Declarations of Interest**

There were no declarations of interest.

5 **Chairman's Announcements**

There were no Chairman’s Announcements.

6 **Public Participation and Councillors' Questions**

There was no public participation.

7 **Investment Regulations Consultation**

A report proposed a response from the Wiltshire Pension Fund to the Government's consultation on the amendments to the Local Government Pension Scheme (LGPS) Investment Regulations for consideration by the Committee.

The Chairman thanked Catherine Dix, Strategic Pension Manager, for the detailed and thorough response she had prepared to the consultation. It was noted that the proposed new Investment Regulations would give the Secretary of State the power to intervene in Funds to ensure they were pooling their assets.

On Question 1 in the response letter the Committee requested that it be highlighted in the response that the Fund did not wish to see an increased cost incurred from increased use of consultants arising from the deregulation. On Question 2, the Chairman was concerned as to whether the 'Myners principles' would be known to the Government officers, however officers reassured that this terminology would be known to them and offered to include a hyperlink to this term in the response if appropriate.

The Committee discussed Question 3, on whether six months was the appropriate period for the transitional arrangements to remain in place, and was reassured by officers that this should be sufficient time since the Investment Strategy Statement would contain similar information to the Fund's existing Statement of Investment Principles.

Members agreed that Question 4 on derivatives was a very pertinent question and the Fund's advisors agreed that clarification was needed on whether hedge funds would be a permitted investment under the new Regulations. Officers agreed to make this question explicit in their response letter. On the matter of evidence required for Secretary of State intervention discussed in Question 5, the Committee considered that an adverse report from the Pension Fund should be included in the list. On discussion of Question 6 the Committee requested that it be stressed that a timescale be included in the Regulations for Authorities to review their Investment Strategy Statement or to provide evidence following consultation by the Secretary of State (SoS) and that Wiltshire recommended a timescale of 2 months. Questions were raised over Question 7 and whether SoS intervention would be in line with the Fund's investment strategy or whether the Fund could be instructed to update its investment strategy at the request of the SoS. It was agreed that the proposed response addressed the fact that it was unclear what form intervention would look like. Members considered Question 8 and the suggested response that clear guidance was vital and agreed priority should be given to immediately preparing best practice guidance.

The conclusion to the response letter was debated and members asked that an amendment be made to reflect that the Fund expected a response to its feedback and answers to questions raised by 1 April 2016, as a delayed response could affect the July deadline for detailed submissions on pooling.

Resolved:

To agree the proposed consultation response subject to the following amendments:

- **That under Q1, it be highlighted that the Fund does not expect to incur additional costs arising from the increased use of consultants as a result of deregulation;**

- **That under Q4, the question be explicitly asked as to whether hedge funds would be a permitted investment;**

- **That under Q5, an adverse report from the Pension Fund be a used as evidence of failure requiring Secretary of State intervention;**

- **That under Q6, it be stressed that a timescale be included in the Regulations for Authorities to review their Investment Strategy Statement or to provide evidence following consultation by the Secretary of State and that Wiltshire recommends a timescale of 2 months;**

- **That the conclusion includes a statement indicating that the Fund expects a response to its feedback and answers to questions raised by 1 April 2016 as failure to respond by such a deadline could impact upon the July deadline for details on the Fund's proposed approach to pooling.**

8 **Date of Next Meeting**

The next ordinary meeting of the Committee was to be held on 10 March 2016.

9 **Urgent Items**

There were no urgent items.

10 **Exclusion of the Public**

Resolved:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Number 11 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.

11 **LGPS Investment Reform Criteria Consultation and Proposed Options for Pooling of Investment Assets**

A confidential report outlined the current options with regards to pooling of assets in the South West and proposed a draft response to the Government's consultation for Committee's consideration.

Resolved:

a) to support the proposed submission to DCLG in response to the Government's LGPS Investment Reforms consultation as outlined in Appendix 1; and
b) to authorise the Chairman of the Pension Committee to sign the accompanying letter, as amended, on behalf of the Fund in support of the Project Brunel proposal.

(Duration of meeting: 3.00 - 4.35 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services, direct line 01225 718214, e-mail elizabeth.beale@wiltshire.gov.uk

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

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

TREASURY MANAGEMENT STRATEGY

Purpose of the Report

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

Background

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

3. Following concerns about so-called "co-mingling" of local authority and pension fund cash balances, and the associated risk of cross-subsidy; the same Regulations require that the two sets of cash investments are managed separately. This separation has been in place since 2010/11.

Considerations for the Committee

4. The Fund currently has a neutral cashflow position from its dealings with members, so in any month, the income from contributions and transfers-in approximately equals the pensions, transfers-out and costs paid out. Any surplus cash accumulated (Trowbridge Cash) is sent to one of the Fund's investment managers on a monthly basis, although a float of approximately one month's cash requirement (£3 - £4 million) is held for cashflow purposes. This is necessary to avoid the Fund having to borrow short-term within the month.

5. This Treasury Management Strategy for Wiltshire Pension Fund has been updated to reflect the need for compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 upon coming into force.

6. Officers continue to monitor the numbers of transfers out resulting from the new freedoms in accessing Defined Contributions pension savings which commenced in April 2015.

7. When preparing this strategy officers liaise with Wiltshire Council's Treasury Management Team to ensure the strategy is appropriate. There has been one change proposed to the Wiltshire Council Treasury Strategy for 2016-17, removing one of the minimum requirement criteria for high credit quality relating to support ratings (see paragraph 28 in attached annex).

8. If there are any changes made to the Wiltshire Council Treasury Strategy during the year the Wiltshire Pension Fund Strategy will be amended accordingly. This would be following a change in the minimum requirements for high credit quality.

The Key points of the Treasury Management Strategy

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

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

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

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

      i. A maximum of £6 million with any single counterparty;

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

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

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

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

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

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

      i. Paying benefits due under the Scheme; or

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

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

Environmental Impact of the Proposal

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

Financial Considerations & Risk Assessment

11. This has been dealt with in this paper. The implementation of this Treasury Management Strategy mitigates the risk PEN016: Treasury Management outlined on the Wiltshire Pension Fund risk register.

Legal Implications

12. There are no known implications at this time.

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no known implications at this time.

Reasons for Proposals

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

Proposals

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

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: Catherine Dix, Strategic Pensions Manager

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

Appendix

WILTSHIRE PENSION FUND
TREASURY MANAGEMENT STRATEGY

Operational Context

1. The Fund currently has a neutral cashflow position from its dealings with its members, so in any month, the income from contributions and transfers-ins approximately equals the pensions, transfers-out and costs paid out.

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

3. However, approximately one month's cash requirement (£3 - £4 million) is held back as a float for cashflow purposes. This is necessary to avoid the Fund having to borrow from Wiltshire Council or elsewhere for short-term cashflow purposes within the month.

Regulatory Context

4. The Fund will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 until they are revoked, which were implemented on 1 January 2010. Upon the revocation of the 2009 regulations The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 will be complied with. From 1 April 2010 Wiltshire Pension Fund has not pooled pension fund cash with Wiltshire Council's own cash balances for investment purposes.

5. The Fund will also have regard to:

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

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

   c) The 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code");

   d) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 or 2016 (once in force).

Investment Policy

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

   a) The security of capital; and

   b) The liquidity of investments.

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

8. All cash investments will be in sterling.

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

10. Trowbridge Cash will target a range of £3 - £7 million, with the highest balances held between the 19th of the month (ie. when all contributions have to be paid over by employers) and 25th of the month (pensions payroll). The float held in-month for cashflow purposes will target £3 - £4 million. For the avoidance of doubt, these are indicative amounts, not absolute limits.

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

    a) A maximum of £6 million with any single counterparty.

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

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

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

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

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

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

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

15. An extract of the appropriate parts from Wiltshire Council's latest Treasury Management Strategy (2016-17) is given in the Annex for information. The full paper will be available from the Wiltshire Council Cabinet reports dated 9th February and can be found on the following link: Agenda for Cabinet on Tuesday 9th February, 9.30am| Wiltshire Council

Borrowing Policy

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

a) Paying benefits due under the Scheme; or

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

Management Arrangements

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

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

Annex

EXTRACT FROM WILTSHIRE COUNCIL'S TREASURY MANAGEMENT STRATEGY FOR 2016-17

17. This Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

18. Capita provide a creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

   a) credit watches and credit outlooks from credit rating agencies;
   b) CDS spreads to give early warning of likely changes in credit ratings;
   c) sovereign ratings to select counterparties from only the most creditworthy countries.

19. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

   a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
   b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
   c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
   d) Purple – 2 years;
   e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):
   f) Orange – 1 year;
   g) Red – 6 months;
   h) Green – 100 days; and
   i) No Colour – not to be used.

20. The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

21. All credit ratings will be monitored at least weekly (daily if there are any updates released by Capita Asset Services). The Council is alerted to changes in ratings of all three agencies through its use of the creditworthiness service.

22. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

23. In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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

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

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

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

28. ***<u>The minimum requirements for high credit quality, by type of institution, are as follows (please refer also to paragraph 30, relating to the removal of one of the minimum requirements this year):</u>***

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

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

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

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

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

- **All banks & building societies must have a bank viability rating of at least bbb – except where the counterparty is UK Government backed (fully and partially) – (aaa being the highest, through aa, a and bbb);**

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

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

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

a) Up to £15 million:

- **UK incorporated banks with a long term credit rating of at least AA;**

- **Overseas banks that have a long term credit rating of at least AA;**

- **Multilateral development banks;**

- **Local authorities and other public bodies; and**

- **Money market funds.**

b) Up to £12 million:

- **Government backed UK banks and UK building societies and their subsidiaries**

c) Up to £8 million:

- **Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**

- **Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**

- **UK Building societies with long term credit rating of at least A; and**

- **Government backed overseas banks and their subsidiaries**

30. ***The minimum requirement for high credit quality relating to support ratings has been removed this year (previously in paragraph 28), following the changes to Fitch ratings implemented (May 2015) by them in respect of "bail-in", as approved by Cabinet and Council in February 2015. The ratings were amended in May/June 2015 and implemented under the adoption of the Treasury Strategy 2015-16 by Cabinet/Council and to "authorise the Associate Director, Finance, Revenues & Benefits and Pensions to amend the Strategy accordingly."***

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

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 the potential impact of such 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 is one additional new risk reported since the last report in December 2015, ***PEN023: Resources of Officers and Members to Meet Expansion of Business Items***. This reflects the additional pressure faced from the current number of consultations, regulatory changes to the scheme, governance requirements and investment issues. The use of Web Links within reports will assist in reducing the volume of committee packs to assist Members to focus on the pertinent issues. The resources required from both officers and Members will also be kept under review.

5. There were two risks that moved from low to medium since December 2015. These are ***PEN006b Significant rises in employer contributions for non-secure employers due to increases in liabilities*** and ***PEN007b Significant rises in employer contributions for non-secure employers due to poor/negative investment returns***. This is to highlight the concern that current market conditions have recently worsened as the Fund approaches the Triennial Valuation on 31 March 2016. This could have significant implications on employers that are not part of the Stabilisation Policy. As updated elsewhere on this agenda, officers and the actuary are considering the approach to take with these employer for the forthcoming valuation to try and manage this risk. Officers are aware increases to employer contribution rates pose a significant cost implications to organisations that may already be suffering severe financial constraints.

Financial Implications

6. There are no known implications from the proposals.

Legal Implications

7. There are no known implications from the proposals.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

9. There are no known implications at this time.

Proposals

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

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

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

APPENDIX

Wiltshire Pension Fund Risk Register

01-Mar-16

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating: Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating: Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	**Failure to process pension payments and lump sums on time**	Benefits Administration	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. Adherence to Pension Administration Strategy and regular monitoring of performance. Documentation of processes and reconciliations.	2	2	4	Low	None	David Anthony		2	2	4	Low	30 Nov 15	→
PEN004	**Inability to keep service going due to loss of main office, computer system or staff**	Benefits Administration	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan reviewed in Dec 2015 and 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. The Fund also operates a paperless office.	4	1	4	Low	None	David Anthony		4	1	4	Low	1 Mar 16	→
PEN005	**Loss of funds through fraud or misappropriation**	Benefits Administration	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	1 Mar 16	→
PEN014	**Failure to provide the service in accordance with sound equality principles**	Benefits Administration	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	1 Mar 16	→
PEN021	**Ability to Implement the Public Sector Exit Cap**	Benefits Administration	Introduction of exit cap will require an additional burden on the administration team.	Changes need to be communicated to individuals and employers and systems adapted once the revised regulations have been approved	David Anthony	Currently monitoring the progress of the current consultations and responding where appropriate. Briefings being provided to team and stakeholders.	1	4	4	Low	Discussions with employers on how to implement. Training for the team on how to implement. Project to amend systems and letters to accommodate changes	Craig Payne	Apr-16	1	3	3	Low	1 Mar 16	→
PEN022	**Reconciliation of GMP records**	Benefits Administration	From 1 April 2016 SERPS will cease and HMRC no longer provide GMP data on members. Fund will be unable to check accuracy of its GMP	If GMP records for members is inaccurate there is the potential for incorrect liabilities being paid by the Fund.	David Anthony	Project has been set up and 2 Data Analysts employed to assist with resources.	2	4	8	Medium	To review resources available against scope of project. Purchase of additional software from Heywood's to process amendments in bulk.	Mark Anderson	Apr-16	1	3	3	Low	1 Mar 16	→

							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
PEN003	**Insufficient funds to meet liabilities as they fall due**	Funding & Investments	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 cash flows.	2	2	4	Low	None	David Anthony		4	1	4	Low	1 Mar 16	→
PEN006a	**Significant rises in employer contributions for secure employers due to increases in liabilities**	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead 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	1	2	Low	The Stabilisation Policy has limited increases for secure employer. The approach to the 2016 Valuation is currently being considered by Committee. This will review the appropriateness of the Stabilisation Policy.	David Anthony	Oct-16	2	2	4	Low	1 Mar 16	→
PEN006b	**Significant rises in employer contributions for non-secure employers due to increases in liabilities**	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead 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. The 2016 Valuation will set employer rates for the 3 years from April 2017.	2	3	6	Medium	The rates for the 2016 Valuation will be presented in October. Current market conditions suggest the potential for significant increases in employer contribution rates. The actuary will outline to this Committee the approach to be taken with non-secure employers for this Valuation.	David Anthony	Oct-16	2	2	4	Low	1 Mar 16	↑
PEN007a	**Significant rises in employer contributions for secure employers due to poor/negative investment returns**	Funding & Investments	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. There is also a flight path strategy to take risk of the table as funding levels improve.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy will be reviewed as part of the 2016 Valuation and reported to Committee in October.	David Anthony	Oct-16	2	2	4	Low	1 Mar 16	→
PEN007b	**Significant rises in employer contributions for non-secure employers due to poor/negative investment returns**	Funding & Investments	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	3	6	Medium	The review of employers long term financial stability and the policy for stepping in contribution rates to assist in affordability issues is being reviewed as part of the 2016 Valuation process. .	David Anthony	Oct-16	2	2	4	Low	1 Mar 16	↑

							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
PEN015	**Failure to collect payments from ceasing employers**	Funding & Investments	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. This policy is being reviewed as part of this agenda.	2	2	4	Low	A review of the cessation policy is taken place on this agenda to provide additional flexibility to the Fund as more employers are now facing potential cessation events.	David Anthony	Mar-16	2	1	2	Low	1 Mar 16	→
PEN016	**Treasury Management**	Funding & Investments	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 has an updated Treasury Management Strategy on this agenda 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	Mar-16	3	1	3	Low	1 Mar 16	→
PEN002	**Failure to collect and account for contributions from employers and employees on time**	Regulatory & Governance	Non-availability of 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. The Breaches framework now require the Fund to log material late payments.	2	1	2	Low	None	Catherine Dix		2	2	4	Low	1 Mar 16	→
PEN008	**Failure to comply with LGPS and other regulations**	Regulatory & Governance	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. Technical & Compliance post reviews process and procedures and maintains training programme for the team.	2	3	6	Medium	The Pension Regulator now has responsibility from 1 April 2015 for Public Sector Pension Schemes. They have recently issued their code of practice which includes a number of new requirements. Work continues to ensure the Fund can comply fully with these requirements but this may lead to areas of non-compliance in the short term. Any "material" non-compliance will be reported to the Regulator.	David Anthony	Mar-16	2	2	4	Low	1 Mar 16	→
PEN009	**Failure to hold personal data securely**	Regulatory & Governance	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. Annual Data Protection training given to the team. On-going cleansing of data undertaken by Systems Team.	2	2	4	Low		Martin Downes		2	1	2	Low	1 Mar 16	→

							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**
PEN010	**Failure to keep pension records up-to-date and accurate**	Regulatory & Governance	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 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	3	6	Medium	From 1 April 2014, the Pension Regulator will require additional checks on data. Data cleansing is taking place to address this. Also, with the end of "contracting-out" in April 2016, HMRC will no longer take responsibility for GMP data.	Martin Downes	Dec-16	2	1	2	Low	1 Mar 16	→
PEN011	**Lack of expertise of Pension Fund Officers and Service Director, Finance**	Regulatory & Governance	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 has formulated annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	2	4	Low	All posts are now filled and the focus remains on training new staff and developing their expertise.	David Anthony		2	1	2	Low	1 Mar 16	↓
PEN012	**Over-reliance on key officers**	Regulatory & Governance	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 team are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	2	4	Low	None	David Anthony		2	1	2	Low	1 Mar 16	↓
PEN017	**Lack of expertise on Pension Fund Committee**	Regulatory & Governance	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. Further training and advice can be called on from our consultants, independent advisors and investment managers too.	2	2	4	Low	The new members training plan for 2015-17 was approved in March 2015. Sessions need to be arranged.	David Anthony	Apr-16	2	1	2	Low	1 Mar 16	→

							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**
PEN018	**Failure to implement the LGPS 2014 Reforms**	Regulatory & Governance	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 implemented to inform all members of the changes. Implementation Plan is on-going. Systems team in close contact with Software are providers to ensure developments will be actioned. Review of process has been undertaken by Technical & Compliance Manager to ensure changes are compliant.	2	2	4	Low		David Anthony		2	2	4	Low	1 Mar 16	→
PEN019	**Establishment of Local Pension Board & Investment Sub-Committee**	Regulatory & Governance	Failure for Wiltshire Council to establish a Local Pension Board, from finding suitable representatives and the officer time required to support this Board and the newly formed pension sub-committee.	Reputational risk from a national perspective and failure to adhere to legislation resulting in action by the Government or the Pension Regulator. Ineffective operation of the Investment sub-Committee leading to bad decision making.	David Anthony	Local Pension Board, approved by Wiltshire Council on 24 February. Following. Recruitment has taken place and all places filled with first meeting scheduled for 16 July 2015, following induction session on 2 July 2015. These Boards will place additional demands on both Members, in particular the need to undertake training and the pension officers time in the support and provision of information.	2	2	4	Low	As the Board becomes established a review of resources and officer time required to manage this Committee will occur to ensure no negative impact on the Pension Fund service delivery.	David Anthony	Jul-16	1	3	3	Low	1 Mar 16	→
PEN020	**Pooling of LGPS assets**	Regulatory & Governance	The Fund needs to respond to the Government's consultation for significantly ambitious proposals for pooling of LGPS assets	If not involved in forming proposals the Government may impose of pooling arrangement on the Fund over which it has not control. If implemented incorrectly this could be costly in terms of additional fees and poor investment returns.	David Anthony	The Fund is being proactive in exploring options with Project Brunel on the potential feasibility of setting up a pooling arrangement. Progress and updates regularly reported to Committee.	2	4	8	Medium	Project Brunel is awaiting feedback from the Feb 16 high level submission and will need to consider approach for its detailed proposal for submission in July 16.	David Anthony	Jul-16	1	3	3	Low	1 Mar 16	→
PEN023	**Resources of Officers and Members to meet the expansion of business items**	Regulatory & Governance	The recent expansion of business items resulting from continued consultations, pooling of assets, and additional governance requirements.	It is increasingly more difficult for officers to thoroughly consider issues and to deliver concise agenda papers covering all the relevant issues, while members are faced with larger report packs trying to cover the pertinent details.	David Anthony	More use of web links within the Committee papers to reduce the size of the packs.	2	3	6	Medium	The adequacy of officers resources to support the Fund's 3 committees, the on-going pooling agenda and the additional complexities arising from regulatory scheme changes will need to be monitored through work planning and appraisals.	David Anthony	Jul-16	1	2	2	Low	1 Mar 16	↑
PEN013	**Failure to communicate properly with stakeholders**	Communication	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.	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	2	4	Low	Member communication continues to be developed and the current round of pension clinics are being held. Both Employer and Members newsletters are being sent out during March.	Zoe Stannard / Denise Robinson	Apr-16	1	1	1	Low	1 Mar 16	→

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

EMPLOYER CESSATION POLICY

Purpose of the Report

1. The purpose of this report is to seek Members' approval for the implementation of a revised Wiltshire Pension Fund Employer Cessation Policy.

Background

2. The Wiltshire Pension Fund originally approved a Cessation Policy on 25 February 2010.

3. With the introduction of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") and the additional Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") now is an appropriate time to review the Cessation Policy.

4. Under the 2013 Regulations when an employer ceases active participation in a Local Government Pension Fund, the funding position of that particular employer needs to be re-evaluated by the Fund's actuary. This normally occurs when the employer in question has no remaining active (contributing) members although more commonly now is when a Transfer Admitted Body's (TAB) outsourcing contract ceases.

5. The 2013 Regulations state any cessation deficit occurring should be recovered from the employer, but there is currently no legal provision for paying back any surplus. The 2013 Regulations do not stipulate the basis or timeframe that funds shall use to recover the deficit which the Cessation Policy attempts to formalise so a consistent approach can be taken across all employers within the Fund.

6. The Fund is now experiencing cessation situations frequently, with increasing complexities of dealing with such events from both the Fund's and employers perspective. Officers feel that an updated policy will assist in managing this risk to the Fund by allowing an element of flexibility to address different cessations whilst ensuring a consistent and fair approach to all employers.

7. The attached draft Wiltshire Pension Fund Cessation Policy has been produced following discussions and consultation with Hymans Robertson.

Considerations for the Committee

Employer Types

8. By way of introduction, it is worth explaining the different types of employer within the Fund:

   a. Scheduled Bodies These are typically 1st and 2nd tier local authorities, but the category also includes some ex-publicly owned bus companies, and more recently, Academy Schools. Employees of these organisations have automatic right of membership of the LGPS.

   b. Resolution Bodies These are Town and Parish Councils where their Council has formally resolved to allow membership of the LGPS for all or some of their employees.

c. <u>Admitted Bodies</u> This category includes all other bodies and membership of the Scheme is in accordance with an admission agreement between the employer and the Fund. This group breaks down into two categories:

   i. *Transferee Admission Bodies (TAB)* – These are typically either private sector companies or charities which are entitled to join the LGPS as a result of winning contracts from existing Scheduled Bodies within the Fund. There is a statutory requirement for the outsourcing employer to stand guarantor for any liabilities that the TAB defaults on the Fund.

   ii. *Community Admission Bodies (CAB)* – These are organisations that have a so-called "community of interest" with local government. They are typically housing associations, or small charities. These charities are arguably the highest risk group of employers, because they tend to be small, do not have tax-raising powers and are not usually backed by a guarantor for historic reasons. Under the Fund's cessation. These tend to be historical employers as the Fund rarely admits a CAB without a guarantor.

9. Of the above groups:

   a. Scheduled Bodies tend not to cease as employers of the Fund (because their members have a legal right to be in the LGPS), unless there is an organisational restructuring, in which case there is highly likely to be a "successor body" to take on the liabilities.

   b. Resolution Bodies are represented by Town & Parish Councils but can occasionally cease, but as they are pooled for funding and contribution rate purposes (ie. they share the risk as if they are one employer), the loss of one does not cause a cessation situation.

10. However, the situation for Admitted Bodies is different and can be placed into three groups:

   a. Transferee Admission Bodies (TAB) with a statutory guarantor in place.

   b. Community Admission Bodies (CAB) with a contractual guarantor in place.

   c. Community Admission Bodies (CAB) without a guarantor in place.

11. The significance of the distinction between these categories is important in terms of coverage by the Regulations and the amount of potential risk posed to the Fund. Where a guarantee is in place, the Fund avoids the potential risk of the Admitted Body defaulting on payment.

12. The presence of a guarantor, whether statutory or contractual, allows the Fund to take a more relaxed attitude to the valuation of any outstanding deficit at the point of cessation, because there is much more certainty of recovery. This can take a number of forms:

   a. A longer spreading period can be allowed for recovery of the deficit (up to 14 years).

   b. Less allowance can be built in for the members living longer than currently expected, because there will be somewhere to go for a "top-up" in years to come, should there be significant improvements in longevity.

   c. A less risk-averse approach can be taken to valuing the liabilities, which means that allowance is made for higher investment performance from equities (compared to "risk-free" gilts) to help reduce the deficit.

The full implications from a, b and c above is to use a valuation akin to an “ongoing’ basis”, as in the Triennial Actuarial Valuation.

13. In the event of no guarantor being in place, the Fund needs to take a more risk-averse position, because in the event of the Admitted Body defaulting on payments, the remaining deficit would be spread across all the other (unrelated) employers in the Fund. Where there is no guarantor, the starting point is a “no risk” cessation valuation, meaning no allowance for immediate payment, maximum allowance for longevity improvements and no allowance for investment performance from equities to help recover the deficit (ie. “gilts” basis).

<u>Suspending Payment of Exit Amounts</u>

14. The updated policy formalises the discretions introduced by the Transitional Regulations. This discretion was approved by this committee at its meeting on 10 December 2015. It effectively allows a cessation event to be suspended for up to a period of 3 years if it’s likely that the employer will admit new active members during this time. This prevents the need for a cessation event and crystallisation of a deficit payment for what could be a transitional period. This will benefit smaller employers with only a few members in the Fund.

<u>Extending Cessation Arrangements</u>

15. Under current market conditions using a “gilts” basis valuation results in significantly higher cessation valuation for those employers where there is no opportunity to establish a guarantor. This presents a substantial risk to both the Fund and employers. The employer can be caught being unable to afford to stay in the scheme due to the high level of employer contribution rates but can neither afford to cease participation due to the prohibitively high exit costs.

16. This revised policy offers additional flexibility to assist the Fund in dealing with employers in this position by requiring them to pay a cessation debt based on the “on-going” basis initially, but to also provide security for the difference between the “on-going” and the “gilt” basis (minimum risk approach).

17. A contribution plan will target full payment of the cessation debt based on this “gilt” (minimum risk) basis over a maximum of 14 years which will be agreed with the Fund’s actuary. This payment plan will be reassessed at each triennial valuation.

18. This approach assists the Fund with those employers who are able to provide the necessary security to manage its deficit payments over a longer timeframe when required with no additional material risk to the Fund. However, employers will be made fully aware this arrangement carries the risk they may end up paying either more or less this than would have been the case without the use of the extended cessation arrangements.

19. The Fund will ensure it remains fully protected by requesting security on a value at risk basis to account for potential movement in liabilities between triennial valuations.

20. With this additional flexibilities, it will be easier to work with employers at a much earlier stage to agree plans for managing deficits and potential cessation events with targeted funding plans which should lead to a reduced risk of non recovery of cessation payments and the prospect of the cost of unfunded liabilities remaining in the Fund that is spread across all the other employers.

Environmental Impact of the Proposal

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

Financial Considerations & Risk Assessment

22. The core objective of this Policy is to reduce financial risk to the Fund and its constituent employers in a way that also manages the risk for the former employers.

Legal Implications

23. There are no known implications at this time.

Safeguarding Considerations/Public Health Implications/Equalities Impact

24. There are no known implications at this time.

Reasons for Proposals

25. This is an important policy for the Fund, covering what can be an area of considerable cost and concern for employers. The draft Employer Cessation Policy is proposed to deal with each potential cessation scenario, with the emphasis on reducing risk to the Fund, ensuring consistency, transparency and fairness for all employers and providing a framework under which the employers can plan cessation payments on a more flexible basis.

Proposals

26. The Committee is asked to approve the Wiltshire Pension Fund Cessation Policy, which will take effect from 1 April 2016.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions.

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

WILTSHIRE PENSION FUND – CESSATION POLICY

1. Introduction

This is the policy of Wiltshire Pension Fund ("the Fund") as regards the treatment of employers on termination of their participation in the Fund. It covers the methodology for calculation and payment of any deficit on leaving the Fund (via a "cessation valuation").

It has been prepared by the Administering Authority, in collaboration with the Fund's Actuary, Hymans Robertson LLP. This policy replaces all previous policies on employer termination and is effective from 1 April 2016.

This policy applies to all past, current and future employers participating in the Fund.

2. Regulatory framework

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the Fund are as follows;

- Regulation 64 (2) – where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the rates and adjustments certificate to be amended to show the exit payment due from the ceasing employer.

- Regulation 64 (2A) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or a guarantor, the contribution rate(s) for the appropriate Scheme employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

In addition to the 2013 Regulations summarised above, the Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time.

These regulations relate to all employers in the Fund. This is a significant change to the previous regulations which applied only to Admitted Bodies.

3. Policy reviews

This policy will be reviewed at least every three years following triennial valuations or following changes to the regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to David Anthony, Head of Pensions, in the first instance at David.Anthony@wiltshire.gov.uk or on 01225713620.

4. Cessation events

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund.

4.1 Current cessations

There are a number of scenarios that may lead to an employer leaving the Fund;

Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies).

- A cessation event will occur when either a contract comes to a pre-arranged end date (the period of which will be defined in the admission agreement), a contract is terminated early or the employer has no remaining active members in the Fund.
- Following payment of any cessation debt, all active, deferred and pensioner liabilities will automatically transfer back to the Awarding Authority, along with the notional value of assets held by the ceased employer.
- If the contract is re-let, a new admission agreement will be set-up between the Awarding Authority and the new employer which may lead to some or all of the active members transferring from the Awarding Authority to the new employer.

All other employers.

- A cessation event will typically occur due to an employer having no remaining active members in the Fund.
- Following payment of any cessation debt, responsibility for all remaining deferred and pensioner liabilities will be shared amongst all remaining active employers in the Fund, unless another Scheme Employer (or group of employers) provides a guarantee that requires them to meet any future shortfall arising in respect of the ceased employer.

The calculation of the cessation position will depend on which scenario applies. See section 6 for details.

In the event that the employer is in surplus, there is currently no mechanism by which this surplus can be repaid by the Fund to the ceased employer.

4.2 Suspending payment of exit amounts

At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an exiting employer. This may be for a period of up to three years after the cessation event (the maximum period permitted by the Regulations).

Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply;

- The employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension notice
- The employer is not a closed Admitted Body, as under the existing admission agreement, no new active members would be permitted to join the Fund.
- Any application for the Administering Authority to grant a suspension notice is made within three months of the cessation event.

The Administering Authority reserves the right to withdraw a suspension notice if it is of the opinion that the terms of any agreement to award a suspension notice are not being upheld by the employer.

If a suspension notice is awarded, the cessation valuation will be deferred until the earlier of 1) the end of suspension period or 2) the point at which the suspension notice is withdrawn (for any reason). If one or more new active members are admitted to the Fund the employer's full participation in the Fund will resume.

During the period of any suspension notice, the employer must continue to make such contributions to the Fund as certified in the Rates and Adjustments certificate.

4.3 Future cessations

If an employer is aware that it will be leaving the Fund in the future, it should alert the Administering Authority and request an indicative cessation valuation.

If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. Alternatively, if this calculation indicates a deficit position is likely then the Actuary will be able to advise of the increase in contributions required over the remaining period of membership. In either case, the Administering Authority has discretion over the funding basis to be used for this calculation.

4.4 Historic cessations

As required under Regulation 25A of the Transitional Regulations, the Administering Authority reserve the right to levy a cessation debt on employers who have ceased participation in the Fund under previous LGPS regulations, but for whom a cessation valuation was not carried out at the time.

5. Calculation Basis for cessation events

It is the Fund's policy that (unless a suspension notice has been awarded) the determination of any surplus or deficit on termination will be carried out as at the date that the final active member leaves/retires and should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in the future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

5.1 Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies).

The Fund's policy is to carry out the cessation valuation in this situation in line with the 'ongoing' actuarial valuation basis from the previous valuation (updated for market conditions at the date of exit).

The Regulations require that the contribution rate for the Scheme Employer who awarded the original contract is amended on termination should there be any unfunded liabilities remaining. This may occur if the certified cessation debt payable by the ceased employer has not been paid and any payment made to the Fund from any bond in place has not been sufficient to meet the full cessation debt.

In this case, the original awarding employer is the 'guarantor' for any legacy liabilities on cessation and any remaining deficit or surplus falls to that employer alone. This 'guarantor' is also considered responsible for any surplus or deficit which arises on these liabilities after the date of cessation.

If the admission agreement is terminated earlier than the contract period set out in the agreement, then the Administering Authority reserves the right to perform the cessation valuation on an alternative basis as agreed with the original awarding authority.

5.2 All other employers (including Scheme Employers, Designated Bodies, other Admission Bodies)

(a) No Guarantor Exists

In the case of an employer where no guarantor exists, since the Regulations suggest that any unfunded liabilities (at the point of cessation or after the cessation date) should be met via increased contributions from all other employers in the Fund, the Administering Authority wishes to protect the interests of the other unconnected employers.

The cessation valuation in such a case will be performed on a 'minimum risk' basis (i.e. a gilts basis which does not allow for any outperformance above gilts from other assets such as equities, and with an increased allowance for future mortality improvements above those adopted at the last actuarial valuation).

If, in the judgement of the Administering Authority, there is a risk of pushing the ceasing employer into insolvency by adopting the 'minimum risk' basis, even after allowing for the spreading period (see 6 below), the Head of Pensions, with the prior agreement of the Chairman and Vice Chairman of the Pensions Committee and the Chief Financial Officer, may allow the cessation valuation to be performed on a set of financial assumptions that are less prudent than the 'minimum risk' basis. In these circumstances, the asset outperformance assumption will be no greater than half of the asset outperformance used at the previous formal actuarial valuation. For the avoidance of doubt, in this situation there will be an increased allowance for future mortality improvements beyond that adopted for the previous formal actuarial valuation.

(b) Ceasing employer has a guarantor

If a guarantor does exist or if the exiting employer is able to obtain a legally binding guarantee from a Scheme Employer on cessation, and that Scheme Employer is deemed by the Administering Authority to be sufficiently large that the cessation deficit for the ceasing body is not material to the ongoing funding position of the Scheme Employer, then at their discretion the Administering Authority waive some of the above requirements. If the guarantor is prepared to absorb the exiting employer's responsibilities then the cessation valuation may be carried out on a basis more akin to the 'ongoing' assumptions.

(c) Treatment of pass-through employers

In the case where the admission agreement with the Fund specifies a full pass-through arrangement, a nil cessation amount will be certified. If an employer enters into an arrangement regarding risk-sharing or pass-through with another Scheme Employer that is not reflected in the employer admission agreement, then a cessation amount will be calculated according to (a) or (b) above and charged to the exiting employer. The exiting employer will be entirely responsible for claiming from the other Scheme Employer any monies to which the exiting employer is entitled as a result of arrangements not reflected in the admission agreement.

6 Payment of any Deficit

If it is determined that there is a deficit at the cessation date and the exiting employer is required to make a payment to the Fund, the Administering Authority will advise the exiting employer of the amount required.

The Fund's policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Administering Authority may consider permitting an exiting employer to spread the payment over an agreed period, where it considers that this does not pose a material risk to the solvency of the Fund. This repayment period will not exceed the deficit recovery period that applies for any guarantor, or in the absence of a guarantor, that for non-tax raising bodies within the Fund (currently 14 years) and will incorporate within the repayment profile the unwinding of the discount rate implicit in the final deficit payment as agreed with the Fund Actuary. If however the proposed repayment period is to exceed 7 years then the Head of Pensions must obtain the agreement of the Chairman and Vice Chairman of the Pensions Committee and the Chief Financial Officer.

The first port of call for payment of the deficit is the exiting body itself and only in the final event of failure to recover from this source would other scenarios be explored. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Administering Authority will pursue an exiting body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. In the event of non-payment, the Administering Authority will also pursue any bond or indemnity provider or guarantor, for payment where appropriate.

In the normal course of events (i.e. where the process above has been adhered to), the exiting body will not normally be exposed to interest rate, investment or other funding risks after the cessation date. Any late deficit payment will include the addition of interest at the level of the base rate plus 5% per annum between the cessation date and the final payment date(s). However, exceptions to this may need to be made depending on the circumstances of the cessation and must be agreed by the Chairman and Vice Chairman of the Pensions Committee and the Head of Finance.

7 Extended Cessation Arrangements

The methodology set out in sections 4, 5 and 6 of this policy is the Fund's preferred treatment of exiting employers. Extended arrangements for cessation valuations including delaying the calculation or payment of a cessation debt beyond the date the last active leaves the Fund, other than in the circumstances set out in Section 4.2, will be considered and if approved (at the Administering Authority's absolute discretion), will be managed as set out below.

This section of policy is based on our current understanding of the Regulations and clarification provided to us by DCLG.

(1) A cessation debt will be calculated at the date of the cessation event on the Fund's 'ongoing' actuarial basis and this amount will be due from the exiting employer immediately. The same terms for repayment of this debt will apply as in specified in 6.

(2) The Fund Actuary will calculate the value at risk after the 'ongoing' cessation debt payment arrangements are made, by assessing the potential cessation deficit that may arise on the 'minimum risk' basis over the next 3 years.

(3) The exiting employer must provide an appropriate form of financial security to Wiltshire Council as administering authority to the Wiltshire Pension Fund for the amount of the value at risk. The form of financial security must be acceptable to the Administering Authority at its absolute discretion. Approved forms of security include a bond with a financial institution, a charge over assets or a Scheme Employer who will act as guarantor for the cessation debt over the extended cessation period.

(4) The value at risk will be re-calculated at each triennial valuation and the security arrangements reviewed to ensure the outstanding value at risk is covered.

(5) A contribution plan targeting full payment of the outstanding cessation debt calculated on the 'minimum risk' basis by a fixed date not later than 14 years after the original cessation event will be assessed at the cessation event and re-calculated at each triennial actuarial valuation by the Fund Actuary taking account of all previous payments. The Administering Authority shall require the exiting employer to enter into such agreements and other documents in the Administering Authority's standard form as are (in the Administering Authority's opinion) required to effect the extended cessation arrangement.

(6) The extended cessation arrangement will be terminated (at the "termination date") and the full amount of any outstanding cessation debt calculated on the minimum risk basis on the termination date will become due immediately in any of the following circumstances:

    a. At a termination date requested by the exiting employer with a minimum notice period of 1 month;

    b. If the exiting employer fails to meet contributions under the contribution plan;

    c. If the exiting employer is no longer able to provide appropriate security to the value required; or

    d. At a date, notified to the exiting employer with a minimum notice period of 3 months by the Administering Authority, which will be not later than 14 years after the original cessation event.

(7) All legal and actuarial costs incurred by the Fund in the process of maintaining the above extended cessation arrangements will be met by the exiting employer.

Any employer entering into extended cessation arrangements will be exposed to funding risks after the date of the cessation event. Employers could end up paying more to the Fund than the 'minimum risk' cessation amount calculated as at the cessation date.

8 Ongoing Management of liabilities after settlement of cessation debts

It is the policy of the Fund to avoid 'orphaned' liabilities and assets which can occur in the following situations:

a) The former employer no longer exists; or

b) The former employer still exists, but they have paid off a cessation valuation in full, so there is no further recourse to them.

In these situations, the issue remains of where the former employer's liabilities (which don't cease until the last pensioner dies) and investment assets reside within the Pension Fund's unitised structure. The approach for dealing with this is as follows:

a) Where there is a guarantor which is also an employer within the Fund, it is the Fund's policy that they will be expected to take the legacy (deferred and pensioner) liabilities and assets into their own valuation group for the purposes of future actuarial valuations. This can also be a way of spreading the cost of any remaining deficit that the guarantor may be picking up, because the liabilities (and assets) become merged with the guarantor's existing liabilities/assets for valuation and contribution rate purposes.

b) Where there is no guarantor, another existing employer within the Fund, such as the original ceding employer (in the case of old Community Admission Bodies) or some other organisation with close links to the former employer will be sought to similarly absorb the legacy (deferred and pensioner) liabilities and assets.

c) If no other employer within the Fund has links to the former employer, the former employers assets will be ring-fenced until the last pensioner dies and any emerging deficit or surplus will be allocated across all current employers in the Fund at that date in proportion to their liabilities.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

PENSION FUND ADMINISTRATION BUDGET 2015-16 - BUDGET MONITORING

		2015/16 Budget £000	2015/16 Projected Outturn £000	2015/16 Variance £000	Explanations
	Fund Investment				
	Investment Management Fees				
	Segregated Funds	5,049	5,213	164	Higher then forecast performance fee from Baillie Gifford arising from continued outperformance.
	Pooled Funds *	2,329	2,128	-201	Slower pace of investments than expected from infrastructure mandate.
		7,378	**7,341**	**-37**	*These projected fee estimates are based on current market conditions and are subject to change prior to year end.*
	Fund Investment Costs				
1	**Investment Administration**	108	108	0	
2	**Investment Custodial & Related Services**	56	39	-17	Lower custodian fees from more use of pooled funds
3	**Investment Consultancy**	153	105	-48	Savings from support required for Custodian review & lower legal fees from mandate reviews
4	**Corporate Governance Services**	39	39	0	
5	**Performance Measurement**	46	46	0	
	Fund Investment Costs	402	337	-65	
	Fund Scheme Administration				
6	**Pension Scheme Administration**	1,458	1,354	-104	In year vacancies & potential administration procurement savings of new software.
7	**Actuarial Services**	111	150	39	Increased employer activity and additional technical support to cover vacancies
8	**Audit**	58	58	0	
9	**Legal Advice**	20	20	0	
10	**Committee & Governance**	82	69	-13	Training costs, in particular for the Local Pension Board re-profiled into 2016-17
	Fund Administration Costs	1,730	1,652	-78	
	Total FUND COSTS	**2,132**	**1,989**	**-143**	
	TOTAL FUND EXPENDITURE (Costs & Fees)	**9,510**	**9,330**	**-180**	

*** Invisible costs paid through investments**

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

WILTSHIRE PENSION FUND ADMINISTRATION BUDGET 2015-16

Purpose of the Report

1. This report seeks Members' approval of the 2016-17 Administration Budget for the Wiltshire Pension Fund, as shown in the Appendix. Actual costs for 2014-15 are also shown, together with the original budget for 2015-16, the 2015-16 forecast outturn is on the same agenda as this report.

2. As last year, the Appendix also shows indicative budgets for the following two years 2017-18 and 2018-19. These budgets incorporate the actions outlined in the Wiltshire Pension Fund Business Plan.

Background

3. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service. The setting of a budget for the forthcoming financial year along with spending proposals for the following two years sets out how the Fund will achieve this.

4. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Wiltshire Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

Key features of the proposed 2016-17 budget

5. The indicative budget presented last year for 2016-17 was £10.236m an increase of £752k (7.9%). This included estimated increases in investment management fees and the cost of the 2016 Triennial Valuation.

6. The budget now proposed for 2016-17 is £10.201m, an increase of £692k (7.3%) from 2015-16 (see Appendix). The largest proportion of the budget (£7.955m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions.

7. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.246m, which is a £115k (5.4%) increase. This reasons for this increase are:

    a) Increase in actuary fees for the cost of the 2016 Triennial Valuation (£74k)

    b) Increase in Pension Administration Recharge reflecting growth in staffing levels (£33k), additional salary costs arising mainly from the additional National Insurance Contributions from 1 April 2016 due to the end of contracting out

(£43k), and additional software costs for assisting the GMP reconciliation work and the implementation of a more robust Unitisation model (£20k).

c) Increase for the additional funding of the Local Pension Board for their on-going training requirements and delivery of proposed work plan (£16k).

8. These increases are offset from a reduction of £72k from the Investment Administration costs as support for the custodian review and assistance with other mandates is not required (£-45k) along with a reduction in custodian fees (£-26k).

Summary

9. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs; however the Government's own data can provide a guide.

10. The Wiltshire Pension Fund administration costs are currently £27.49 per member in 2015-16. The proposed budget will takes these costs to £30.45 per member as the Fund attempts to keep these costs within an envelope (between £27-£30 p.m.) although costs will inevitably increase across all schemes resulting from the 2016 valuation and the implementation work of investment pooling.

11. In terms of investment costs, the budget indicates spend of 40p per £1,000 (0.40% of market value) on managing it assets for 2016-17, including all pooled mandate costs. The national data for a scheme between £1-£1.5bn shows investment costs of 0.36% although this may not account for pooled costs which are usually netted off the units held. The CEM Benchmarking report commissioned by Hymans Robertson indicated that the total investment cost for an LGPS fund was on average 0.65% and the budget being proposed ensures the Fund remains well below this figure.

Environmental Impact of the Proposal

12. There are no known environmental impacts from these proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no known implications at this time.

Risk Assessment

14. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. They may go up or down, depending on market conditions.

15. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represents 0.12% of the total Fund value.

16. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Treasurer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification.

Reasons for Proposals

17. The submission of the proposed budget to this Committee is in line with best practice and assists in mitigating a number of the risks outlined in the Risk Register elsewhere on this agenda.

Proposals

18. The Committee is asked to:

  a) Approve the Pension Fund Administration Budget for 2016-17 shown in the Appendix totalling £10.201m.

  b) Note the indicative budget allocations for 2017-18 and 2018-19.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: Catherine Dix, Strategic Pensions Manager

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

APPENDIX

Wiltshire Pension Fund Administration Budget 2016-17

2014-15 Actual £		2015-16 Budget £	Changes £		2016-17 Budget £	2017-18 Annual Change £	2018-19 Annual Change £	
	Fund Investment							
6,095,932	INVESTMENT MANAGEMENT FEES	7,378,000	577,000	7.8%	7,955,000	835,000	728,000	
105,225	**Investment Administration Recharge**	107,500	*4,735*		112,235	*1,880*	*1,378*	
13,385	**Investment Custodial & Related Services**	56,000	*-26,000*		30,000	*2,000*	*3,000*	*Reduced custodian fees from more pooled funds*
122,125	**Investment Professional Fees**	152,800	*-45,400*		107,400	*1,850*	*14,470*	*Custody review costs not required in 2016-17*
38,250	**Corporate Governance Services**	39,300	*1,000*		40,300	*1,000*	*1,000*	
40,383	**Performance Measurement**	46,200	*-6,100*		40,100	*0*	*0*	
319,368	INVESTMENT ADMINISTRATION COSTS	401,800	*-71,765*	-17.9%	330,035	*6,730*	*19,848*	
	Scheme Administration							
1,249,504	**Pension Scheme Administration Recharge**	1,458,250	*97,245*		1,555,495	*-410*	*-8,599*	*Increase in staff salaries and software costs*
64,402	**Actuarial Services**	111,000	*74,000*		185,000	*-74,000*	*0*	*Increased costs for the 2016 Triennial Valuation*
54,302	**Audit**	58,300	*0*		58,300	*0*	*0*	
28,056	**Legal Fees**	20,000	*0*		20,000	*0*	*0*	
40,900	**Committee and Governance Recharge**	82,400	*15,083*		97,483	*773*	*163*	*Increased costs for Local Pension Boards Work Plan and training*
1,437,164	SCHEME ADMINISTRATION COSTS	1,729,950	*186,328*	10.8%	1,916,278	*-73,637*	*-8,436*	
1,756,532	**GRAND TOTAL (EXC INVEST MAN FEES)**	**2,131,750**	***114,563***	5.4%	**2,246,313**	***-66,907***	***11,412***	
7,852,464	GRAND TOTAL (INC INVEST MAN FEES)	9,509,750	*691,563*	7.3%	10,201,313	*768,093*	*739,412*	

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 March 2016

Reappointment of Actuarial/Benefits Services and Investment Advisory Services

Purpose of the Report

1. The purpose of this report is to consider the extension of the call-off contract period for both Actuarial/Benefits Advisory Services and Investment Advisory Services.

Background

2. Back in 2011, with the agreement of this Committee, officers worked with six other South West funds to tender the contracts for actuarial, benefits and investment services.

3. A framework was set up running for 7 years, covering two valuation cycles. The framework was split into 3 lots; Lot 1 – Actuarial Services, Lot 2 – Benefits Consultancy and Lot 3 – Investment Advice.

4. Wiltshire Pension Fund appointed Hymans Robertson for Lots 1 & 2 and after a mini competition exercise Mercers were appointed for Lot 3. The call off- contracts were originally for a period of 4 years with an option to extend for a further period. The Hymans Robertson possible extension is for 3 years, whereas the Mercers extension is for 3 years 11 months.

Main Consideration for Committee

Actuarial & Benefits Services

5. Long standing business relationships are very important for these services particularly in relation to the actuarial work. It can take an actuary a considerable amount of time to really get to know the detail of a Fund. The Fund has used Hymans Robertson for a number of years and has been very satisfied with the services received.

6. Officers annually review the performance of the actuary as part of the South West Framework along with its other clients. An annual meeting is held to review this consolidated feedback and the monitoring of performance of Hymans Robertson against the key KPIs outlined in the contract. Feedback is then provided to the provider. To date there has been no significant issues with the service.

7. As 2016 is also a valuation year, operationally this would not be an ideal time to change actuary unless there was a material issue with their service provision.

8. Therefore officers would recommend the continuation of the contract for the remaining period.

Investment Services

9. Following a mini competition exercise in 2012 Mercers were appointed as the retained advisor to Committee. This was a change in provider, as previously the Fund also obtained this service from Hymans Robertson. Potential conflicts of interest were a key consideration for the Fund at the time of appointment and by changing adviser this possible conflict was removed.

10. Jo Holden has been the lead advisor from Mercers and is a well-known and respected advisor within the LGPS arena. The Fund has been very satisfied with the services received from Mercers.

11. Again, officers annually review the performance of the investment adviser as part of the South West Framework along with its other clients. An annual meeting is held to review this consolidated feedback and the monitoring of performance of Mercer against the key KPIs outlined in the contract. Feedback is then provided to the provider. To date there has been no significant issues with the service.

12. The performance of the Fund has also improved over the period; the WM universe as at 31 December 2015 put the Fund in the 28th percentile on a 3 year period.

13. Therefore officers would recommend the continuation of the contract for the remaining period.

Financial Considerations & Risk Assessment

14. The Framework ensures costs reflect market rates and the original joint procurement ensured the South West funds benefited from the potential economies of scale. A number of the standard services in each lot are ‘commoditised’ for pricing with cost increases restricted to those set out in the tender for the duration of the Framework. The Fund also benefits from the Framework discounts where more than one client uses the supplier. Actual cost savings are monitored by the Environment Agency as the contract progresses.

15. The Framework provides ‘value for money’ in terms of obtaining the best advice at the right price to enable the Fund to provide excellent services to its customers, in accordance with the Wiltshire Pension Fund Business Plan.

16. The Framework is no commitment to guaranteed levels of work. Any contract can be terminated or another supplier approved under the Framework. This is a major benefit which reduces the procurement burden, particularly in officers’ time.

17. The services provided as a result of this tender link directly back to risk reduction measures in the Fund’s risk register (eg. Failure to comply with regulations, lack of expertise amongst officer/members, over reliance on key officers, etc).

Legal Implications

18. The contract terms and conditions of all suppliers on the framework were agreed in 2011.

Environmental Impact of the Proposals

19. This is no environmental impact of these proposals.

Safeguarding Considerations / Public Health Implications / Equalities Impact

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

Proposals

21. The Committee is asked to agree for the continuation of the call off contracts with Hymans Robertson as provider of Actuarial & benefits services and with Mercer as provider of Investment Services.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: Catherine Dix, Strategic Pensions Manager

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

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Wiltshire Council
Where everybody matters

LOCAL PENSION BOARD

MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 14 JANUARY 2016 AT SALISBURY ROOM - COUNTY HALL, TROWBRIDGE.

Present:

David Bowater, Lynda Croft, Cllr Christopher Newbury, Mike Pankiewicz, Howard Pearce (Chairman) and Barry Reed

Also Present:

Ian Colvin, Michael Hudson, Catherine Dix, Craig Holden and Lucy Hook.

1 **Membership**

There had been no changes to the membership of the Board since the last meeting, however David Anthony, Head of Pensions, updated that the recruitment for the vacant Group 2 position on the Board was underway and had received one expression of interest.

Resolved:

To note the update.

2 **Attendance of non-members of the Board**

Ian Colvin (Hymans Robertson), Michael Hudson, Catherine Dix, Craig Payne and Lucy Hook were in attendance.

3 **Apologies**

There were no apologies for absence.

4 **Minutes**

The Board received the minutes of the last meeting and attached action-log tracking the progress of actions and recommendations.

The Chairman requested an update on the process for selecting and reviewing auditors. Michael Hudson (Treasurer to the Pension Fund) advised that since the demise of the Audit Commission, local authorities would have to appoint their own external auditors using an independent panel however the guidance was unclear as to the requirements on pension authorities. The Treasurer was awaiting a response to his queries and guidance on whether funds in the South West could appoint an external auditor together, as well as the timescales for this, and would report back to the Board.

Resolved:

To confirm the minutes of the meeting held on 22 October 2015.

To note the progress of actions recorded in the Board's action log.

To request that the process for reviewing external audit or appointment arrangements be reported to the next meeting of the Board.

5 **Declarations of Interest**

There were no declarations of interest.

6 **Chairman's Announcements**

There were no Chairman's Announcements.

7 **Public Participation and Councillors Questions**

There was no public participation.

8 **Part 1 Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub-Committee**

Members considered the draft public minutes of the Investment Sub-Committee held on 23 November 2015 and Wiltshire Pension Fund Committee held on 10 December 2015. Key points of note were that the Fund had adopted the Conflict of Interest Policy and Breaches Policy for the Board and had been updated on the Fund's Triennial valuation and latest news from the LGPS sector.

Resolved:

To note the minutes of the Investment Sub-Committee held on 23 November 2015 and Wiltshire Pension Fund Committee held on 10 December 2015

9 **Scheme Legal, Regulatory and Fund update**

The Head of Pensions updated members on recent consultations published since the last meeting. The Government's consultation on the pooling of assets was to close on 19 February 2016, by which date the Fund was expected to submit high-level proposals on pooling with other funds in the South West, with detailed proposals required by 15 July 2016. The comprehensive proposals would need to include details of liquidity (determining how quickly pooling could take place), proposed infrastructure investments and governance arrangements. The pools were required to total £25bln in assets which the Government had described as 6 wealth funds. A change to the Investment Regulations would also be necessary arising from this pooling and the Government was currently consulting on this.

The Board heard that that a feasibility study for pooling funds in the South West had been commissioned and currently was considering a range of options from Collective Investment Pools to a joint-committee approach. A special Pension Fund Committee meeting had been set for 1 February 2016 to discuss the proposed response to the consultation. Board members commented that the most transparent approach would be their preference.

Resolved:

To note the attached consultation documents and the proposed timescale and process for formulating a Wiltshire Pension Fund response;

To encourage the Pension Fund Committee to ensure that robust governance requirements, clear auditing mechanisms and transparency are identified for the proposals arising from pooling and that the impact of pooling arrangements be communicated to Fund members.

10 **Review of the Risk Register**

The Board was presented with the current Risk Register for the Wiltshire Pension Fund, it was noted that the categorisation of the register had been undertaken following recommendations at the last meeting of the Board. Three new risks reflecting new developments in the LGPS had been identified on the register. Officers advised that the Pension Fund Committee had identified lengthy agendas as a risk and they would be cutting down the length of reports by increasing the use of hyperlinks, Board members were happy for this approach to also be applied to Board administration. The Chairman suggested that the date for completion of actions for mitigating risks should be reviewed to ensure that risks be continually reduced.

Questions were raised over the implications for employees arising from the Public Sector Exit Cap and it was confirmed that implications would be communicated to members once known.

Resolved:

To note the Risk Register and actions being taken to mitigate risks.

To recommend a review of the timescales for measures to reduce risks.

To recommend that officers communicate the implications of the public sector exit cap to the Fund's members once known.

11 **Training Items: the Pension Regulators Code of Practice no 14 and 2014 Record Keeping Regulations**

Members received training from Ian Colvin, Hymans Robertson, on the Pension Regulator Code of Practice no. 14 and Record Keeping Regulations; the Board was expected to keep abreast of these to consider direct requirements under Public Sector Pensions Act 2013 and to assist the scheme manager in securing compliance and reporting breaches. The content of the Code was covered, including: Governance (key knowledge that members should have), Managing Risk (internal controls required for the scheme manager), Administration (records needed), and Resolving issues (internal dispute resolution and reporting breaches).

The Chairman suggested that officers review the response that other Funds in the South West had given to the Pension Regulator's governance survey since governance was important to pooling. Board members noted that the Code and Regulations required Fund members to receive scheme information in a simple and engaging way however acknowledged that this was difficult to achieve. It was confirmed that where administration of benefits was being undertaken jointly (eg. in Devon and Somerset) the responsibility for governance still rested with the administering authority of that particular fund.

Resolved:

To thank Ian Colvin for the informative training session and to note the requirements placed upon the Board by the Pension Regulator's Code of Practice No.14 and 2014 Record Keeping Regulations.

To suggest that officers investigate the responses of other funds in the South West to the Pension Regulator's Survey as part of the due diligence work for potential asset pooling.

12 **The Pension Regulator Governance Survey**

A report presented the Pension Regulator's survey and its findings on the review of governance in public sector pension schemes for the Board's consideration.

The Head of Pensions advised that the Fund was currently focussing on record keeping and was investigating new addresses for Funds members where their details were now out of date. Members acknowledged that the Board had a duty to review key issues and risks for compliance with tPR's Code of Practice No.14 and that it may commission an independent advisor to assess the current level of compliance against tPR’s code to reinforce the work undertaken by officers. The Chairman requested that the Treasurer discuss this issue with audit partners in the South West and report back at the next meeting.

Resolved:

To note the survey and its findings on the review of governance arrangements.

To request that officers report back at the next meeting on the options for an independent review of Wiltshire Pension Fund compliance with tPR new requirements following discussion with audit partners in the South West.

13 **Training Plans Update**

Members considered their responses to self-assessment and the proposed training plan for the Board. It was understood that Board members were required to have a good level of working knowledge and would be supported to develop this. The Pensions Regulator had a toolkit to assist with training, members would also receive bespoke training sessions, a handbook and briefing notes. Training plans would be based on members’ self-assessments and would be recorded and training logs published in the Pension Board Annual Report. Members felt it would be unrealistic to expect all of them to be very knowledgeable about all aspects of the LGPS and concluded that the Board should aim to move towards a ‘Good’ rating within a year and aspire for the ‘Skilled’ level thereafter. It was noted that a handbook was necessary to record resources used for training to ensure the membersalways had a point of reference. It was recommended that a ‘traffic light system’ be used to track progress made on training.

Resolved:

a) to approve the attached Board Members Training Plan as proposed in Appendix 2;

b) to note the Framework for Training outlined in the report;

c) to complete the tPR on-line toolkit within 12 months of appointment; and

d) to recommend that progress on training be monitored using colour-coding.

14 **CIPFA Pensions Administration Benchmarking**

The outcomes of the 2015 CIPFA Benchmarking survey were presented for the Board to consider. The survey compared the Fund against the other 44 LGPS authorities within the club; the Board agreed the benchmarking was a useful review of performance and noted its annual cost of £680. An overview of administration costs, memberships, administration, and staff matters was provided. The Wiltshire Pension Fund was broadly in line with other LGPS schemes in terms of work being processed, the areas where the Fund was higher was a reflection of the proactive approach being taken in respect of communicating with members, improving its ICT capabilities and monitoring and managing its liability risks through its work with the actuary. Questions were raised over the high number of retirements commuting to a lump sum and officers considered it was down to preference.

Resolved:

To note the outcome of the survey.

15 **Review of the Wiltshire Pension Fund Administration Strategy**

A report presented the revised Pension Administration Strategy approved by the Pension Fund Committee on 10 December 2015 for review. The strategy set out the quality and performance standard expected of all Scheme employers and admitted bodies within the Wiltshire Pension Fund. The Board discussed that it planned to examine performance indicators at its next meeting and requested that officers review the charge-out rate compared to other LGPS funds. Only a few material changes to the strategy had been made and all the timeframes for the delivery of information remained the same for Scheme employers, with the exception of year end returns that had been brought forward a week as the Fund now had to deliver Annual Benefits Statements by 31 August. Employers had been consulted on the new strategy and were generally in support of it.

Resolved:

To note the Administration Strategy for the Fund.

To recommend that officers review the charge-out rate for the calculation of costs from persistent failure to meet targets or resolve cases to ensure it is in line with other Funds.

16 **Review of the Administering Authorities Discretion Policy**

Craig Payne, Technical and Compliance Manager, presented a summary of the updated Administering Authorities Discretion Policy approved by the Pension Fund Committee on 10 December 2015. New discretions were required to ensure an up to date policy to comply with latest LGPS regulations; an overview of mandatory and key optional discretions was provided.

Questions were raised over the Fund's use of discretions in comparison to other Funds and how discretions were implemented by the Associate Director for Finance. It was confirmed that the Fund was broadly in-line with others and took into account the impact of decisions on the Fund, the employer and the individual to ensure balanced decisions. Costs were considered in decision-making but were not the principle factor. Michael Hudson, Associate Director for Finance, and also Treasurer to the Pension Fund, advised that when discretions were to be decided by him he often delegated this responsibility to a deputy or took advice from the Legal team to avoid any conflict of interest. Significant decisions could be referred to the Wiltshire Pension Fund Committee.

Resolved:

To note the updated Administering Authorities Discretion Policy.

17 **Review of the 2015 Business Plan**

The Board was updated on the implementation of the actions identified in the 2015 Business Plan. The report detailed actions which were still outstanding however members were reassured that these were not business critical and would be addressed now that the Fund had more resource. It was noted that the implementation of regular covenants and risk reviews of employer bodies would be addressed in the Triennial Valuation.

Resolved:

To note the update on actions identified in the Business Plan.

18 **Review of the Local Pension Board Work Plan for 2016**

Members considered the draft work plan for the Board and the Chairman advised this would be a standing item on agendas to ensure the Board was working towards its priorities. It was confirmed that the Board could regularly be updated on asset pooling under the Scheme legal, regulatory and fund update item.

Resolved:

To approve the draft work plan.

19 **Local Pension Board Budget 2016-2017**

The Board considered its proposed budget for 2016-17 and noted that it had increased by £6,000 from the previous year, mainly due to the need for investment in training. Should the budget need to be changed, for instance to allow for further spending on independent advisors, this could be done with the agreement of Michael Hudson, Treasurer to the Fund, and reported back to a future meeting of the Wiltshire Pension Fund Committee. Funding could be moved between budget headings in exceptional circumstances provided this was reported to ensure transparency. Members agreed to keep refreshment costs to a minimum.

Resolved:

To recommend to the Wiltshire Pension Fund Committee that the proposed Local Pension Board Budget be included in the Fund's Administration Budget for 2016-17.

20 **How did the Board do?**

Members agreed that training items were particularly useful.

Resolved:

To thank Ian Colvin for his training session on the Pension Regulators Code of Practice No.14 and Record Keeping regulations.

21 **Date of next meeting**

The next meeting of the Board was to be held on 7 April 2016.

22 **Urgent items**

There were no urgent items.

23 **Exclusion of the Public**

Resolved:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Number 24 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.

24 **Part 2 Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub-Committee**

The Board considered the Part 2 minutes of the last meeting of the Investment Sub-Committee and Wiltshire Pension Fund Committee.

Resolved:

To note the Part 2 confidential minutes of the meetings of the Investment Sub-Committee on 23 November 2015 and Wiltshire Pension Fund Committee held on 10 December 2015.

(Duration of meeting: 10.30 am - 1.10 pm)

The Officer who has produced these minutes is Libby Beale (Democratic Services Officer), of Democratic Services, direct line 01225 718214 , e-mail elizabeth.beale@wiltshire.gov.uk

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Agenda Item 20

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Agenda Item 22

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