Trustees' Report for Wiltshire Pension Fund Annual Report 2002-03

Introduction

This is the second annual report by the Wiltshire Pension Fund Committee under the new executive arrangements of the County Council. The Committee's powers in respect of management of the Fund are delegated by the full County Council.

The early part of 2002-03 was a busy time for the Committee, being involved in the appointment of new investment managers, as part of the implementation of the revised investment strategy. Other business considered by the Committee during the year has included the admission of new employer bodies, responses to Government consultations on pensions matters, the method for allocating the Fund's cash to investment managers and on-going investment performance. The Committee receives a presentation from one or more of the investment managers at each of its meetings.

The County Council's pension investments manager, Terry Webb, retired on 31 March 2003 after nearly 28 years service with the County Council, to become a Wiltshire Pension Fund pensioner himself. Terry's retirement timing was impeccable in order to allow his successor, David Broome, to make a quick impact – the Fund's value reached a low in March and has recovered by nearly 17% at the time of writing. We wish Terry every happiness in his retirement.

For the third consecutive year, stock market decline has dominated the scene in 2002-03. The FTSE100 Index was 5,272 as the year started, reaching a low of 3,287 on 12 March 2003, but thankfully has recovered reasonably since (4,075 on 30 June 2003). With 70% of the Fund invested in equities, the Fund's value is sensitive to equity market movements. It is hoped that the market optimists are proved right, and that the recovery continues, because an improvement in the Fund's value in the period up to 31 March 2004 will be crucial in determining the employers' contribution rates following the 2004 actuarial valuation.

The Health of the Wiltshire Pension Fund

The poor financial health of pension funds continues to be an issue that generates much media interest. As is well documented, the two main reasons for this are increased longevity and poor investment returns. The removal of dividend tax relief has not helped, either. Many defined benefit schemes are closing in the private sector and local authorities' schemes are not avoiding scrutiny.

We are now half-way between publication of the results of the 2001 and the 2004 triennial valuations for the Wiltshire Fund, with the results expected in the late autumn of 2004. Some employer bodies are now into the second year of stepped increases in their contribution rates following the 2001 valuation. The positive news for the Wiltshire Pension Fund, compared to many others, is that member bodies have taken the pain relatively early, with among the highest contribution rates for a shire county fund in the country. The relative benefits of this should begin to show through in the 2004 valuation. Some member authorities have also been paying in significant cash injections from capital receipts, which will also help.

Whilst we do not have a formal measure of the health of the Fund at this mid-point between valuations, we can gain some indication from the FRS17 reports (see later narrative) that Hymans Robertson, the Fund's actuaries, have provided for employer bodies. These show reductions in FRS17 funding levels over 2002-03 of between 20% and 30%, which is consistent with an investment return of approximately -21% over the same period. Having said that, the FRS17 accounting standard is a relatively blunt instrument that is more sensitive to market changes than the method adopted for the formal actuarial valuations which are used to establish employers' contribution rates, as it does not smooth out the peaks and troughs in equity markets.

Clearly these reduced funding levels are not good news, although, as already noted, March 2003 was somewhat of a low point. However, without a remarkable turnaround by 31 March 2004, funding levels will not have recovered to their 2001 valuation levels and there seems to be no easy way out of the current difficulties. Hymans Robertson have warned that some of the smaller employers could experience much larger contribution increases than the average for the Fund as a whole, because their liability profiles are different to the large employers within the Fund.

To help employer bodies budget for possible future increases in employers' contributions, the County Treasurer has recently commissioned a mini funding review. This will assess the current funding position, suggest ways to reduce further liabilities and provide information that will give a guide to the likely level of contributions for the Fund as a whole.

As a point of interest on investment performance, the Wiltshire Pension Fund ranked 65th out of 100 funds included within the WM Local Authority Fiscal League Tables for 2002-03. This is a respectable result in a year when we had a major change of investment strategy and the appointment of three new investment managers, which has inevitably resulted in additional costs with some impact on performance in the short-term. However, we believe that the Fund is now well-placed to provide solid investment returns in the future, which would help keep employer contributions to the lowest possible levels.

New Investment Management Arrangements

Following approval of the new investment strategy for the Fund, which was discussed in the last annual report and is given in Appendix (e), the Fund's investment management arrangements were changed during the year, with the new mandates taking effect from October 2002. Two existing managers (Baillie Gifford and Capital International) were retained and three new ones were appointed. The full list is as follows:

Company	Mandate	Share of Fund
Baillie Gifford	Global Equity	25%
Capital International	Global Equity	25%
Northern Trust Global	Global Equity "Manager of Managers"	20%
Western Asset Management	Bonds	20%
ING Real Estate	Property	10%

These appointments followed a rigorous tendering exercise, including presentations by the short-listed bidders to the Committee. We are grateful to Hymans Robertson, our investment advisors, for their help.

These new arrangements aim to increase the scope for higher investment returns without increasing the Fund's overall exposure to risk. The Committee is not complacent about these arrangements and will be monitoring the effectiveness of the new strategy in the light of changing market conditions and trends. The results of the 2004 valuation may also prompt a strategy review. We will obviously continue to monitor the managers' performance closely in the meantime.

The County Treasurer is also considering and implementing other ways to maximise the investments returns and reduce the costs of the Fund, including a scheme called Commission Recapture and by establishing more efficient ways of accounting for the Fund, in partnership with our custodian, Northern Trust.

FRS17

Readers of last year's report will remember that we reported in some detail on the requirements of and background to the new Financial Reporting Standard 17 (FRS17). In summary, the FRS17 requires organisations (including local authorities) to show their pensions liabilities relative to the pensions assets (ie. investments), as well as their actual contributions into pension schemes, in their annual accounts.

During the year, Hymans Robertson and the County Treasurer's staff have worked together to provide FRS17 information promptly to each employer body who requires it, for inclusion in their accounts. The employer bodies making up the significant majority of the Fund have 31 March year-ends, so we will be able to gain an indication of movements in the relative health of the Fund from year to year using FRS17 data, between the triennial valuations.

The Wiltshire Pension Fund Web Site

Last year we reported that work was underway on implementing the Fund’s web site and in September 2002 the web site, www.wiltshirepensionfund.org, was launched. It has received much critical acclaim from both members and pensioners, as well as employers, who can contact experienced staff by email with queries and requests for information. The site is updated regularly and will become an increasingly useful communication tool.

The Future of the Local Government Pension Scheme

In September 2001 the Government initiated a stocktaking exercise on the Local Government Pension Scheme (LGPS). In 2002 The Office of the Deputy Prime Minister (ODPM) produced discussion papers on simplifying the regulatory framework governing the LGPS and the retirement benefit package options. Proposals include:

- a higher employee contribution;
- raising the Normal Retirement Date to 65 for all new entrants;
- increasing the earliest age of retirement (other than on health grounds) from 50 to 55;
- flexible retirement; and
- compulsory membership

The Committee recognises the need for change but believes that future modernisation should build on the considerable strengths of the current Scheme. We welcomed the opportunity to participate in the discussion and supported the policy principles underpinning benefit provision, namely that they should be:

- comprehensive in their provision;
- flexible and responsive to the needs of employees and employers; and
- equitable to scheme members, employers and tax payers in terms of the balance between provision and cost.

In addition, 100 questionnaires were sent to members of the Wiltshire Pension Fund, seeking their views on the benefits and shortcomings of the scheme. A further 100 questionnaires were sent to non-members of the Scheme to determine why they had chosen not to join. All responses were forwarded to the ODPM.

The Government has also issued a Green Paper on pensions, "Simplicity, Security and Choice: Working and Saving for Retirement". Proposals in the paper include:

- one single tax regime to replace all existing regimes - this will simplify scheme administration sweeping away hundreds of pages of legislation;
- allowing people to save into as many concurrent pension arrangements as they wish;
- allowing schemes to offer people the opportunity to continue working while drawing their occupational pension, which will assist employers in managing their ageing workforce, help prevent age discrimination and increase the average age of retirement; and
- simplification of the interaction between State and occupational pension provision.

It is important to remember that the current Scheme is not under challenge and that no-one's rights under the present arrangements are being changed. But it is equally important that the debate takes place on how best to secure the future of the Scheme by making it more flexible and attractive.

Conclusion

The key focus of the Pension Fund Committee continues to be to ensure the efficient and effective administration of all aspects of the Wiltshire Pension Fund. The particular emphasis of the Committee has been to seek to improve investment returns through prudent diversification, aimed at simultaneously reducing risk and increasing opportunity. We have also sought to minimise the costs of the Fund. Both strategies should benefit all employer bodies who pay into the Fund.

David Lay, Chairman
On behalf of the Wiltshire Pension Fund Committee

10/2004/WPF/DB