

WILTSHIRE PENSION FUND COMMITTEE  
20 June 2007

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**DRAFT ANNUAL REPORT FOR 2006-07**

**Purpose of the Report**

1. The purpose of this report is to present the draft Wiltshire Pension Fund Annual Report and Financial Statements 2006-07 to Members for approval.

**Background**

2. The Annual Report contains details of the accounts of the Wiltshire Pension Fund for the year to 31 March 2007 and is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund.
3. It supplements the Statement of Accounts of the County Council, a formal publication required under the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting. As well as reporting the accounts, the opportunity is taken to cover matters of wider interest that affect the Fund, its investments and general pension provision.

**Risk Assessment**

4. The audit of the Wiltshire Pension Fund is not yet finalised and therefore the Audit Opinion and Certificate had not been issued at the time this report was prepared.

**Financial Considerations**

5. These are considered in the Annual Report.

**Environmental Impact of the Proposals**

6. There are none.

**Proposals**

7. Members are asked to approve the draft Wiltshire Pension Fund Annual Report & Financial Statements 2006-07 for publication, subject to the completion of the audit.

SANDRA SCHOFIELD  
Chief Financial Officer

Report Author: David Anthony/Keith Bray

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Unpublished documents relied upon in the production of this report: NONE

92/2007/WPF/DB

# **WILTSHIRE PENSION FUND**

**Report & Accounts**  
**For the year ended 31 March 2007**

***(DRAFT UNAUDITED)***

# **WILTSHIRE PENSION FUND**

## **REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

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## **1. CHAIRMAN'S FOREWORD**

It is with pleasure that I present this Annual Report of the Wiltshire Pension Fund. It contains details of the administration of the Fund, together with its investments and accounts for the year to 31 March 2007.

The Fund is administered by Wiltshire County Council for local authorities within Wiltshire and other local government associated organisations. It meets the cost of pension benefits due to current and former employees of these organisations.

This Report is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund, which are listed on page 5. A summary version of this report is available to scheme members and others, and this more detailed Annual Report is available on the Fund's website at [www.wiltshirepensionfund.org.uk](http://www.wiltshirepensionfund.org.uk).

The Fund continues to grow in size, having acquired around 2,400 members during the year and having increased in value by some £83 million, which, although smaller than some recent years, is pleasing nevertheless.

There were no membership changes on the Wiltshire Pension Fund Committee during the year, which is important, because this is a very specialist area where experience and accumulated expertise are vital to the efficient running of the Fund. However, Mike Prince retired from his post as County Treasurer during the year and we thank Mike for his guidance and advice over the years and offer him our best wishes for a healthy and happy retirement. Mike has been replaced as head of finance by Sandra Schofield who has taken up the role of Chief Financial Officer and we look forward to working with Sandra. Full details of the Fund's governance arrangements are set out on page 6.

The year 2006-07 has seen a lot of activity on route to implementation of a "new look" Local Government Pension Scheme from 1 April 2008. The Government held a number of consultations during the year, to which the Fund responded, and the final regulations for implementation were issued early in April 2007. More details can be found in the Administration Report from page 7 onwards.

Investment markets continued their recovery during 2006-07 but remain volatile. As anticipated, overall returns of 5.7% were much lower than those achieved during 2005/06 due to more benign market conditions, but nevertheless helpful. This return compares with the consolidated benchmark of 7.2%, so it has not been a particularly good year for the majority of our investments managers.

Against this background, several major strands of work have been undertaken in relation to the Fund's investment arrangements, including the approval of a new Investment Strategy in July 2006 (see page 11). Work continued throughout the year and three new investment managers were appointed in April 2007, with full implementation due in July. The Fund also changed Custodian during 2006-07, resulting in a significant cost saving.

The Fund faces many challenges over the next year. Apart from implementing the "new look" LGPS scheme by 1 April 2008 and the new investment management arrangements from 1 July 2007, the Triennial Actuarial Valuation of the Fund, measuring its assets against its liabilities as at 31 March 2007 will be completed during 2007-08. As a result, we will be agreeing new employer contribution rates with the Fund's Actuary, Hymans Robertson, and communicating these to employers for implementation from April 2008.

Needless to say, we remain totally committed to achieving the very best for the Wiltshire Pension Fund, but more particularly for you as its constituent employers and members.

**Kevin Wren, Chairman**

***On behalf of the Wiltshire Pension Fund Committee***

## 2. BASIC FUND INFORMATION

### Statistics

Year ended 31 March

|                             | 2006        | 2007        |
|-----------------------------|-------------|-------------|
| <b>Membership</b>           |             |             |
| Contributors                | 19,186      | 19,313      |
| Pensioners                  | 8,409       | 8,848       |
| Deferred pensioners         | 10,489      | 12,333      |
|                             |             |             |
| <b>Financial data</b>       | <b>£000</b> | <b>£000</b> |
| Gross Income                | 99,659      | 108,292     |
| Gross Expenditure           | 49,504      | 54,615      |
| Market value of investments | 1,045,482   | 1,127,941   |
| Book cost of investments    | 779,920     | 896,380     |
|                             |             |             |
| <b>Performance</b>          | <b>%</b>    | <b>%</b>    |
| Return on investments       | 22.7        | 5.7         |

Income (ie. contributions from employers and employees together with dividends and interest earned by investments, but excluding profits on sales of investments) has consistently exceeded expenditure and is anticipated to continue to do so for many years ahead because the Fund is immature in terms of its membership profile.

### **Participating Employers at 31 March 2007**

#### **Scheduled Bodies**

Wiltshire County Council  
Swindon Borough Council  
Kennet District Council  
North Wilts District Council  
Salisbury District Council  
West Wilts District Council  
Wiltshire Police Authority  
Wiltshire & Swindon Fire Authority  
Wiltshire Magistrates Court Service  
Wiltshire Probation Service  
Thamesdown Passenger Transport  
Amesbury Parish Council  
Blunsdon St Andrews Parish Council  
Bradford-on-Avon Town Council  
Calne Town Council  
Chippenham Town Council  
Corsham Town Council  
Cricklade Town Council  
Devizes Town Council  
Haydon Wick Parish Council  
Highworth Town Council  
Malmesbury Town Council  
Marlborough Town Council  
Melksham Town Council  
Melksham Without Parish Council  
Mere Parish Council  
Purton Parish Council  
Stratton St Margaret Parish Council  
Trowbridge Town Council  
Wanborough Town Council  
Warminster Town Council  
Westbury Town Council  
Wilton Town Council  
Wootton Bassett Town Council  
Wroughton Parish Council  
New College  
Salisbury College  
Swindon College  
Wiltshire College

#### **Admitted Bodies**

ABM Catering  
Action for Blind People  
Capita  
CIPFA  
Cleanaway Ltd  
Community First  
Connexions  
Corsham Area Development Trust  
Rethink  
North Wiltshire Leisure Limited  
Salisbury and South Wilts Museum  
Sarsen Housing Association  
Silbury First  
Silbury Group  
Swindon Dance  
Ridgeway Community  
The Order of St John Care Trust  
United Response  
Vinci  
West Wilts Housing Society  
Westlea Housing Association  
Wiltshire Archaeological Society  
Wiltshire Community Foundation

### **3. GOVERNANCE OF THE FUND**

#### **Administering Authority**

Wiltshire County Council  
County Hall  
Trowbridge  
Wiltshire BA14 8JJ

#### **Pension Fund Committee as at 31 March 2007**

|  |   |
|--|---|
| <b>County Council members</b>          | Councillor Patrick Coleman<br>Councillor Ross Henning<br>Councillor John Noeken<br>Councillor Fleur de Rhe-Philippe (Vice Chairman)<br>Councillor Kevin Wren (Chairman) |
| <b>Swindon Borough Council Members</b> | Councillor Des Moffatt<br>Councillor Peter Stoddart   |
| <b>District Council Member</b>         | Councillor John Brady – Salisbury D C   |
| <b>Employee Observers</b>              | Mike Pankiewicz – Wiltshire County Council<br>Tony Gravier – Swindon Borough Council  |
| <b>Admitted Bodies</b>                 | Mr Tim Jackson – Westlea Housing Association  |

The Committee meets at quarterly intervals or more frequently if necessary.

#### **Officers, Advisors & Managers at 31 March 2007**

|                                |   |
|--------------------------------|---|
| <b>County Council Officers</b> | Dr Carlton Brand – Director of Resources<br>Sandra Schofield – Chief Financial Officer<br>David Broome – Interim Head of Pensions                                   |
| <b>Investment Managers</b>     | Baillie Gifford & Co<br>Capital International Ltd<br>ING Real Estate Investment Management<br>Northern Trust Global Advisors Ltd<br>Western Asset Management Co Ltd |
| <b>AVC providers</b>           | Equitable Life Assurance Society<br>Clerical Medical Funds<br>NPI Funds   |
| <b>Investment Consultant</b>   | Hymans Robertson  |
| <b>Actuary</b>                 | Hymans Robertson  |
| <b>Independent Adviser</b>     | Keith Neale, Independent Pension Fund Adviser   |
| <b>Auditor</b>                 | Audit Commission  |
| <b>Custodian</b>               | ABN AMRO Mellon   |
| <b>Legal adviser</b>           | Osborne Clarke  |

#### **Policy Documents**

The Fund's Governance Policy Statement and its Communications Policy Statement are available upon request or can be viewed at [www.wiltshirepensionfund.org.uk](http://www.wiltshirepensionfund.org.uk)

## **4. ADMINISTRATION REPORT**

### **Update on changes to the Local Government Pension Scheme**

During 2006-07 there were significant developments with regard to the introduction of a 'new look' Local Government Pension Scheme (LGPS). As reported last year, there were a number of significant changes to the LGPS in 2005-6. April 2005 saw the introduction of the Government's plan to phase out the "Rule of 85", which allows employees to retire before 65 with unreduced benefits. Even before the changes came into effect, however, with the threat of strike action by the unions in the run-up to the General Election of that year, the Deputy Prime Minister announced his intention to revoke the amendment regulations at the earliest Parliamentary opportunity, which he did in August 2005. At the same time he announced the establishment of a tripartite committee, with representatives from the Local Government Association, the staff side and officials from his own department, to look into the long-term future of the Scheme.

Amendment regulations were subsequently introduced in March 2006 with the intention of phasing out the "Rule of 85" from 1 October 2006, with benefits earned up to that date protected for all members who could achieve the Rule before 65 and protection extended to April 2013 for older members. At the same time the Scheme was amended to reflect changes in the tax regime surrounding pensions introduced from 6 April 2006 by the Finance Act 2004. Among these changes were:

- The opportunity of a bigger tax-free lump sum by giving up part of annual pension;
- Abolition of the 40-year limit on membership and 15% limit on employee's contributions;
- Introduction of 'flexible retirement', allowing an employee, with employer's consent, to draw pension benefits while continuing to work on reduced hours or a lower grade;
- Replacement of limits on maximum pension and lump sum by 'lifetime allowance' and 'annual allowance' (£1.5m and £215,000 in 2006/7, respectively);
- Abolition of 'earnings cap' (£105,600 in 2005/6) on pensionable pay and employees' contributions for post-31 May 1989 joiners.

From 5 December 2005 the LGPS was amended to provide survivors' benefits for same-sex couples registering their partnership under the Civil Partnership Act, achieving equal treatment with spouses.

### **Where next for the Local Government Pension Scheme?**

Looking ahead, further changes are proposed to extend the "Rule of 85" protections to 31 March 2008 for all current members and up to 2016 for older members. At the end of June 2006, the Department for Communities and Local Government issued a consultation document, *'Where next? - Options for a new-look Local Government Pension Scheme'*, inviting comments on the possible design of a new scheme from April 2008.

In a written statement to Parliament on 23 November 2006, the Minister for Local Government and Social Cohesion, Phil Woolas MP, announced a series of proposals to be introduced from April 2008 designed to change the look of the Local Government Pension Scheme (LGPS). This followed consultation of scheme members, employers and trade unions over the summer. Final regulations were issued in April 2007 for implementation by 1 April 2008.

### **The New-Look scheme**

The main elements of the proposed "new-look" Local Government Pension Scheme are outlined below (overleaf):



- Normal Pension Age (NPA) of 65 in order to obtain a release of unreduced benefit;
- Earliest age for release of pension is to be 55 by 2010 for current members except on grounds of ill-health;
- Earliest age for release of pension is 55 for new joiners after 1 April 2008, except on grounds of ill health;
- Augmentation of membership/benefits on an objectively justified basis;
- Final Salary Pension based on 1/60th of salary for each year of pensionable service, with the flexible option to commute pension at the rate of £1 of annual pension for £12 of lump sum up to a maximum tax free lump sum of 25 per cent of capital value of accrued benefit rights at date of retirement;
- The best of the last three years' whole-time equivalent salary;
- Survivor benefits for life payable to spouses, civil partners and "nominated" dependent partners (opposite and same sex) at a 1/160th accrual rate;
- Survivor benefits payable to children;
- Revised permanent ill-health retirement package with no review system within the Scheme – two levels with a higher enhancement of benefits for total incapacity; 25% (with degree of protection) enhancement with prospect of return to gainful employment
- A death-in-service tax free lump sum of 3 times salary;
- Scope to have post-retirement lump sum death benefit up to a maximum of 10 years;
- Phased retirement arrangements that would enable LGPS members under specified circumstances to draw down some or all of their accrued pension rights from the scheme while still continuing to work;
- Actuarial enhancement for those who continue in work beyond NPA of 65 without accessing their pension benefits;
- Tiered employee contribution rates ranging from 5.5% for people earning up to £12,000 to 7.5% for people earning over £75,000; and
- A facility to purchase up to £5,000 of added annual pension.

### **Other Matters**

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

## 5. INVESTMENT REPORT

### Funding Policy

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

All LGPS funds are required to publish a document called a “Funding Strategy Statement” (FSS). The Wiltshire FSS can be supplied upon request or viewed at [www.wiltshirepensionfund.org.uk/fundingstrategy.pdf](http://www.wiltshirepensionfund.org.uk/fundingstrategy.pdf). The former Office of the Deputy Prime Minister (ODPM) defined the purpose of the FSS as being:

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

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

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

### Investment Goal

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

### Investment Strategy

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

- a) a relatively large allocation to equity investment to achieve higher returns; and
- b) allocations to more diversified and less correlated asset classes such as bonds, property, hedge funds and income-based equity products to achieve stabilisation.
- c) The achievement of some “alpha” (manager) returns independently of “beta” (market) returns, through currency, high alpha equity and hedge fund strategies.

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a Statement of Investment Principles (SIP) – the Wiltshire Fund’s SIP can be supplied upon request or viewed at [www.wiltshirepensionfund.org.uk/investment-principles](http://www.wiltshirepensionfund.org.uk/investment-principles).

### **Investment Powers**

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations, which provide wide investment powers, subject to certain restrictions. These regulations were amended in 2003 to allow investment committees to increase their Fund's exposure to certain type of investments – but only where proper advice has been obtained. The current limits are as follows

- (a) No more than 10% deposited with a single bank (other than the National Savings Bank).
- (b) No more than 15% invested in unlisted securities.
- (c) No more than 10% in a single holding (except unit trusts).
- (d) No more than 35% in unit trusts or other collective investment schemes managed by any one body.
- (e) No more than 35% in a single insurance contract.

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

- (a) the advisability of investing fund money in a wide variety of investments;
- (b) the suitability of particular investments and types of investments; and
- (c) the extent to which the administering authority complies with the ten CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom, which followed Paul Myners' review of institutional investment; this must be explicitly stated.

### **Strategic asset allocation**

As part of the review of the Fund's investment management arrangements, during 2006 the Committee, with the assistance of its investment advisers, reviewed its strategic asset allocation. In broad terms, the result is that, going forward, the Fund is to be invested 52.5% in Equities, 17.5% in Bonds, 13% in Property and 17% in Alternatives. However, of the Alternatives, around 13% are equity based (in either Long-Short or Income Yield biased products), so this equates to an effective equity allocation of over 65%. More details are given in the section below summarising the Fund's investment management arrangements.

### **Risk control**

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

### **Corporate Governance**

The Council seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by subscribing to the Pensions & Investment Research Consultants Limited (PIRC) Corporate Governance Service and requires its direct equity managers to follow PIRC voting recommendations in the UK.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act collectively with other local authorities on corporate governance issues.

## Socially Responsible Investment

The Committee expects its investment managers, to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments insofar as these matters are regarded as impacting on the current and future valuations of individual investments. Taking account of such considerations is seen as forming part of the investment managers' normal fiduciary duty.

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

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

## Investment management arrangements

During 2006-07, the Wiltshire Pension Fund Committee concluded its review of investment strategy and management arrangements. As a result it was decided to:

- Move to an equity asset allocation strategy based on 60% overseas and 40% UK
- Disinvest from Northern Trust's "managers of managers" equity mandate
- Allocate 7.5% to a new global unconstrained equity manager with a value bias
- Allocate 5% to a long-short equity manager
- Allocate 2% of the Fund to an active currency strategy
- Increase the property allocation to 13% (managed by ING Real Estate)
- Reduce the allocation to bonds (managed by Western Asset Management) by 2.5% (i.e. from 20% to 17.5%)
- Introduce currency hedging for 50-75% of the Fund's currency exposure
- Rebalance Baillie Gifford's 25% of the Fund to 50% Long Tern Global Growth Fund and 50% Core UK

This means that going forward the Fund's asset allocation will be:

|   | <u>%</u>     |
|---|--------------|
| UK equities                                   | 20.5         |
| Overseas/Global equities                      | 32.0         |
| Bonds   | 17.5         |
| Property                                      | 13.0         |
| Alternatives:                                 |              |
| • Income-Yield Targeted (Equities/Bonds/Cash) | 10.0         |
| • Long-Short Equity                           | 5.0          |
| • Active Currency                             | <u>2.0</u>   |
|   | <u>100.0</u> |

The Committee approved the appointment of a global unconstrained equity manager (Edinburgh Partners), a long-short equity manager (Fauchier Partners) and a currency manager (Record Currency Management) during April 2007 and the new mandates will operate with effect from 1 July 2007. The allocation of mandates to managers at that point will be as follows:

| <u>Manager</u>             | <u>Mandate</u>               | <u>%</u>     |
|----------------------------|------------------------------|--------------|
| Baillie Gifford            | Long Term Global Growth Fund | 12.5         |
|                            | Core UK Equity               | 12.5         |
| Capital International      | Income-Yield Targeting       | 10.0         |
|                            | Core Overseas & UK Equity    | 19.0         |
| Edinburgh Partners         | Global Unconstrained Equity  | 7.5          |
| Fauchier Partners          | Long-short Equity            | 5.0          |
| Western Asset Management   | Fixed Interest               | 17.5         |
| ING Real Estate            | Property                     | 13.0         |
| Record Currency Management | Active & Passive Currency    | <u>3.0</u>   |
|                            |                              | <u>100.0</u> |

### **Investment markets**

Stock markets around the world enjoyed another strong year during 2006. Money continued to pour into emerging markets, commodities, property and private equity as investors' appetite for risk worldwide remained remarkably strong. Market volatility at the end of February 2007 appears to be no more than a sensible re-pricing of risk and the economic outlook appears to be relatively stable. At the time of writing equities seem to be the asset class of choice, the case for bonds and property being less strong in an environment of rising interest rates in most major markets. Weaker growth in the US would appear to be the single greatest threat to global equity markets

### **Fee Structures**

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

### **Other Matters**

The County Council participates in a securities lending programme managed by its global custodian. It will also underwrite, or sub-underwrite, new issues where the investment managers are prepared to hold the relevant shares.

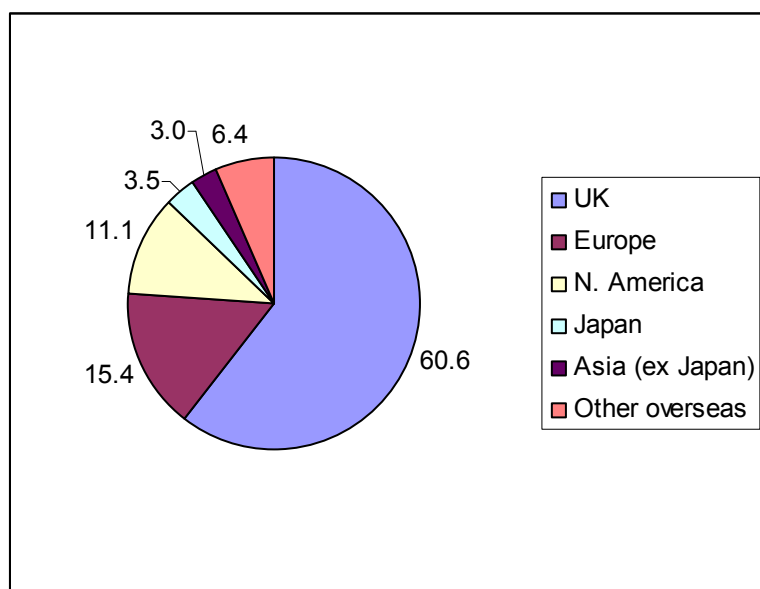
A Commission Recapture programme was introduced in 2003-04, whereby an element of the commission that is paid to brokers on stock market transactions is recovered

## **Distribution of investments**

### **Analysis of Investments as at 31 March 2007**

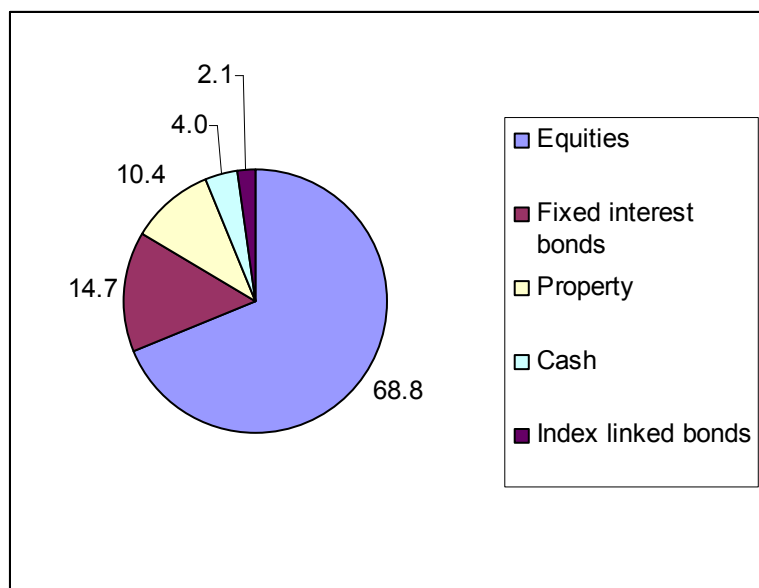
|                              | £000             | % of<br>Fund total |
|------------------------------|------------------|--------------------|
| <b>Geographical analysis</b> |                  |                    |
| United Kingdom               | 684,311          | 60.6               |
| Europe                       | 173,381          | 15.4               |
| North America                | 124,956          | 11.1               |
| Japan                        | 39,311           | 3.5                |
| Asia, ex Japan               | 33,342           | 3.0                |
| Other overseas               | 72,640           | 6.4                |
|                              | <b>1,127,941</b> | <b>100.0</b>       |

### **Investment by region/country**



### Analysis of investments by sector as at 31 March 2007

| Sector analysis      |         | %            |
|----------------------|---------|--------------|
| Equities             | 775,965 | 68.8         |
| Fixed interest bonds | 166,172 | 14.7         |
| Property             | 117,369 | 10.4         |
| Cash                 | 44,661  | 4.0          |
| Index linked bonds   | 23,774  | 2.1          |
| <b>1,127,941</b>     |         | <b>100.0</b> |



**Twenty largest holdings at 31 March 2007**

|   | <b>£000</b>    | <b>%</b>    |
|---|----------------|-------------|
| Hercules UT                             | 16,905         | 1.5         |
| Royal Bank of Scotland                  | 15,941         | 1.4         |
| Glaxosmithkline                         | 14,833         | 1.3         |
| UBS Global Asset Mgmt Triton Property   | 11,084         | 1.0         |
| Capital International UK Corporate Bond | 10,989         | 1.0         |
| HSBC Holdings                           | 10,028         | 0.9         |
| Vodafone                                | 9,849          | 0.9         |
| British American Tobacco                | 9,828          | 0.9         |
| Reed Elsevier                           | 9,772          | 0.9         |
| Schroder Property Investment Management | 8,313          | 0.7         |
| Germany (FED REP) BDS 4.250% 4-Jul-2014 | 8,282          | 0.7         |
| Royal Dutch Shell B                     | 8,271          | 0.7         |
| Treasury 4.750% 7-Dec-2038              | 8,144          | 0.7         |
| Rockford Hanover Property               | 8,116          | 0.7         |
| UK Treasury 4.750% 7-Mar-2020           | 8,107          | 0.7         |
| Capital International Fund Emerging     | 7,884          | 0.7         |
| Atlas Copco                             | 7,767          | 0.7         |
| BG Group                                | 7,569          | 0.7         |
| Porsche                                 | 7,522          | 0.7         |
| Threadneedle Property                   | 7,475          | 0.7         |
| Baillie Gifford British Smaller         | 7,377          | 0.7         |
| Ebay                                    | 6,963          | 0.6         |
| SAP                                     | 6,939          | 0.6         |
| Barclays                                | 6,928          | 0.6         |
| UK Treasury 6.000% 7-Dec-2028           | 6,890          | 0.6         |
|   | <b>231,776</b> | <b>20.6</b> |



## **6. ACTUARIAL POSITION**

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of Wiltshire Pension Fund's assets and liabilities was carried out as at 31 March 2004.

### **Security of Prospective Rights**

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 at the rate of 6% of pensionable pay for all members except manual staff who joined before 1 April 1998 and contribute at the rate of 5% of pensionable pay;
- Contributions, for the three years commencing 1 April 2005, by the employers as specified in our revised Rates and Adjustments certificate dated 31 March 2006.

### **Summary of Methods and Assumptions Used**

Full details of the method and assumptions are described in our valuation report dated March 2005 and the Rates and Adjustments certificate contained therein. Copies of these documents are available on request from the Finance Department of Wiltshire County Council.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively allowing for future salary increases.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

### **Valuation of Assets**

A "market related" valuation method has been used. However, in the previous valuation, a "smoothed" approach was taken for deriving the financial assumptions and assessing the value of assets. At the 2004 valuation, such a smoothing methodology was not used to devise the financial assumption – spot yields were used instead. Nor was any smoothing used in assessing the asset values.

### Valuation assumptions

The key financial assumptions adopted at the 2004 valuation are set out in the table below:

| Financial Assumptions             | Mar 2004<br>Unsmoothed |                |
|-----------------------------------|------------------------|----------------|
|                                   | % p.a.<br>Nominal      | % p.a.<br>Real |
| Discount Rate                     | 6.3%                   | 3.4%           |
| Pay Increases                     | 4.4%                   | 1.5%           |
| Price Inflation/Pension Increases | 2.9%                   | -              |

The 2004 valuation revealed that the Fund's assets, which at 31 March 2004 were valued at £710 million, were sufficient to meet approximately 75% of the liabilities accrued up to that date.

### Forthcoming actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2007 and the results known later that year. This valuation will allow for the experience of the fund since 31 March 2004 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustment certificate. These extra payments will be taken into account in the 2007 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:

Peter Summers FFA  
For and on behalf of Hymans Robertson LLP  
1 June 2007

## **7. STATEMENT OF ACCOUNTS**

### **Accounting policies**

The general principles adopted in compiling the accounts of the Wiltshire Pension Fund follow the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA). Specifically, they follow the Statement of Recommended Practice on Financial Reports for Pension Schemes and the CIPFA Code of Practice on Local Authority Accounting, and also with the guidance notes issued on the application of the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs). Significant points or variations from compliance are detailed below.

### ***Basis of Preparation***

The accounts have been prepared on an accruals basis, which means income and expenditure is accounted for as it is earned or incurred, rather than as it is received and paid. The benefits payable and refunds of contributions, however, have been brought into account on the basis of all valid claims approved during the year.

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

### ***Investments***

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

Costs incurred on the acquisition of investments, such as stamp duty and commission, are treated as part of the purchase cost of investments.

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

### ***Administration Expenses***

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

### ***Taxation***

The Fund is an exempt approved Fund under the Finance Act 1970, and as such, is not liable to UK income tax on investment income, nor capital gains tax. As Wiltshire County Council is the administering authority, VAT input tax is recoverable on all expenditure.

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

### ***Foreign Currency Transactions***

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the relevant exchange rate ruling at the time. Where overseas securities are acquired with currency either previously purchased directly or accruing from the sale of securities, the sterling book cost of the new security will be based

on the exchange rate ruling at the time of the purchase of that security. Any profit or loss arising on currency transactions, either realised or unrealised, will be reflected in the balance sheet.

### ***Related Party Transactions***

Related parties to the Wiltshire Pension Fund include all the Admitted Bodies within the Fund (see page 5), members of the Wiltshire Pension Fund Committee and the Director of Resources. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party. All these transactions are included within the accounting statements given in the following pages.

## Fund Account for year ended 31 March 2007

| 2005-06<br>£000                   |   | 2006-07<br>£000 |
|-----------------------------------|---|-----------------|
| <b>CONTRIBUTIONS AND BENEFITS</b> |   |                 |
|                                   | <i>Contributions receivable</i>                 |                 |
| 14,882                            | - from employees                                | 15,746          |
|                                   | - from employers                                |                 |
| 41,805                            | • Normal  | 50,525          |
| 6,960                             | • Additional                                    | 2,764           |
| 10,939                            | Transfers in                                    | 8,576           |
| <b>74,586</b>                     | <b>Total income</b>                             | <b>77,611</b>   |
|                                   | <i>Benefits payable</i>                         |                 |
| 32,585                            | - Pensions                                      | 34,508          |
| 5,243                             | - Retirement grants                             | 7,229           |
| 887                               | - Death benefits                                | 1,028           |
|                                   | <i>Payments to and on account of leavers</i>    |                 |
| 6,866                             | - Transfers out                                 | 6,923           |
| 497                               | - Contribution refunds                          | 179             |
| 895                               | Administration expenses                         | 943             |
| <b>46,973</b>                     | <b>Total expenditure</b>                        | <b>50,810</b>   |
| <b>27,613</b>                     | <b>Net additions from dealings with members</b> | <b>26,801</b>   |
| <b>RETURN ON INVESTMENTS</b>      |   |                 |
| 25,073                            | Investment income                               | 30,681          |
| 183,861                           | Change in market value of investments           | 29,199          |
| -2,531                            | Investment expenses                             | -3,805          |
| <b>206,403</b>                    | <b>Net returns on investments</b>               | <b>56,075</b>   |
| <b>234,016</b>                    | <b>NET INCREASE IN FUND DURING YEAR</b>         | <b>82,876</b>   |
| 814,361                           | Opening net assets of the Scheme                | 1,048,377       |
| 1,048,377                         | Closing net assets of the Scheme                | 1,131,253       |

## Net Asset Statement at 31 March 2007

| 31.03.06<br>£000 |  | 31.03.07<br>£000 |
|------------------|--|------------------|
|                  | <b>INVESTMENT ASSETS</b>                   |                  |
|                  | <i>Quoted securities</i>                   |                  |
| 26,698           | - UK Fixed interest government bonds       | 44,012           |
| 102,022          | - UK Fixed Interest corporate bonds        | 86,639           |
| 4,398            | - Overseas fixed interest government bonds | 31,345           |
| 0                | - Overseas fixed interest corporate bonds  | 5,274            |
| 15,101           | - UK index linked government bonds         | 16,359           |
| 5,623            | - UK index linked corporate bonds          | 6022             |
| 28,174           | - Overseas index linked government bonds   | 0                |
| 0                | - Overseas index linked corporate bonds    | 1,393            |
| 288,981          | - UK equities                              | 262,915          |
| 245,434          | - Overseas equities                        | 323,785          |
|                  | <i>Managed funds</i>                       |                  |
| 93,939           | - UK equities                              | 97,362           |
| 102,515          | - Overseas equities                        | 91,903           |
| 0                | - UK fixed interest corporate bonds        | 10,989           |
| 0                | - Overseas fixed interest corporate bonds  | 7,868            |
| 90,255           | - UK property                              | 117,369          |
|                  | <i>Cash held on deposit</i>                |                  |
| 23,467           | - Sterling Cash                            | 23,291           |
| 18,875           | - Overseas Cash                            | 1,415            |
| <b>1,045,482</b> | <b>Total of investments held</b>           | <b>1,127,941</b> |
|                  | <b>NET CURRENT ASSETS</b>                  |                  |
| 3,737            | Sundry Debtors                             | 4,267            |
| -842             | Less Sundry Creditors                      | -955             |
| <b>2,895</b>     | <b>Total net current assets</b>            | <b>3,312</b>     |
| <b>1,048,377</b> |  | <b>1,131,253</b> |

**Analysis of Contributions Receivable & Benefits Payable for year ended  
31 March 2007**

| <b>2005-06</b>                  |  | <b>2006-07</b> |
|---------------------------------|--|----------------|
| <b>£000</b>                     |  | <b>£000</b>    |
| <b>CONTRIBUTIONS RECEIVABLE</b> |  |                |
|                                 | <i>Contributions from employees</i>        |                |
| 5,164                           | - Wiltshire County Council                 | 5,506          |
| 8,518                           | - Other scheduled bodies                   | 8,960          |
| 1,200                           | - Admitted bodies                          | 1,280          |
| <b>14,882</b>                   |  | <b>15,746</b>  |
|                                 | <i>Contributions from employers</i>        |                |
| 17,353                          | - Wiltshire County Council                 | 20,125         |
| 27,396                          | - Other scheduled bodies                   | 28,373         |
| 4,016                           | - Admitted bodies                          | 4,791          |
| <b>48,765</b>                   |  | <b>53,289</b>  |
| <b>63,647</b>                   | Total contributions receivable             | <b>69,035</b>  |
| <b>BENEFITS PAYABLE</b>         |  |                |
|                                 | <i>Pensions payable</i>                    |                |
| 13,592                          | - Wiltshire County Council                 | 12,294         |
| 17,529                          | - Other scheduled bodies                   | 19,978         |
| 1,464                           | - Admitted bodies                          | 2,236          |
| <b>32,585</b>                   |  | <b>34,508</b>  |
|                                 | <i>Retirement and Death grants payable</i> |                |
| 1,469                           | - Wiltshire County Council                 | 3,239          |
| 4,101                           | - Other scheduled bodies                   | 4,089          |
| 560                             | - Admitted bodies                          | 929            |
| <b>6,130</b>                    |  | <b>8,257</b>   |
| <b>38,715</b>                   | Total benefits payable                     | <b>42,765</b>  |

## Analysis of Investment Income for year ended 31 March 2007

| 2005-06<br>£000 |                                 | 2006-07<br>£000 |
|-----------------|---------------------------------|-----------------|
|                 | <i>Quoted securities</i>        |                 |
| 3,934           | - UK fixed interest bonds       | 5,227           |
|                 | - Overseas fixed interest bonds | 2,215           |
| 2,650           |                                 |                 |
|                 | - UK index linked bonds         | 569             |
| 468             |                                 |                 |
| 201             | - Overseas index linked bonds   | 108             |
| 7,741           | - UK equities                   | 13,054          |
| 3,628           | - Overseas equities             | 4,480           |
|                 | <i>Managed funds</i>            |                 |
|                 | - UK companies                  |                 |
| 27              |                                 |                 |
| 264             | - Overseas companies            |                 |
| 74              | - UK fixed interest bonds       |                 |
| 77              | - Overseas fixed interest bonds |                 |
|                 | - UK property                   | 3,794           |
| 3,068           |                                 |                 |
|                 | <i>Cash held on deposit</i>     |                 |
| 936             | - Sterling Cash                 | 1,091           |
| 2,005           | - Overseas Cash                 | 143             |
| <b>25,073</b>   |                                 | <b>30,681</b>   |

## Analysis of Debtors & Creditors at 31 March 2007

At 31<sup>st</sup> March 2007, the amounts shown in the accounts comprise:

|   |              |
|---|--------------|
| <i>Debtors and Payments in Advance</i>              | <b>£000</b>  |
| Contributions due from other authorities and bodies | 4,238        |
| Income due from External Managers & Custodians      | 1            |
| Other   | 28           |
|   | <b>4,267</b> |
| <i>Creditors and Receipts in Advance</i>            | <b>£000</b>  |
| Managers/Custody Fees                               | 859          |
| Inland Revenue                                      | 3            |
| Contributions in Advance                            |              |
| Other   | 93           |
|   | <b>955</b>   |



## Breakdown of Wiltshire Pension Fund Administration Costs

|  | 2005-06<br>£000 | 2006-07      |
|--|-----------------|--------------|
| <b>Wiltshire County Council Resources Department charges</b> |                 |              |
| Pension benefit administration                               | 553             | 439          |
| Pension payroll administration                               | 151             | 157          |
| Pension investment & accounting administration               | 102             | 235          |
| <b>Sub total</b>   | <b>806</b>      | <b>831</b>   |
| <b>Direct administration costs</b>                           |                 |              |
| Pension administration                                       | 173             | 184          |
| Investment & accounting administration                       | 6               | 4            |
| "Bad advice" costs recouped                                  | -3              | -3           |
| <b>Sub total</b>   | <b>176</b>      | <b>185</b>   |
| <b>Third party investment management charges</b>             |                 |              |
| Investment managers' fees                                    | 2,316           | 3,389        |
| Custody  | 47              | 192          |
| Consultancy fees   | 81              | 151          |
| <b>Sub total</b>   | <b>2,444</b>    | <b>3,732</b> |
| <b>Overall total</b>   | <b>3,426</b>    | <b>4,748</b> |

### **Statistics**

|   |        |         |
|---|--------|---------|
| <i>Total costs per scheme member</i>                        | £89.96 | £117.25 |
| <i>Scheme administration costs per scheme member</i>        | £22.95 | £19.19  |
| <i>Scheme administration staff numbers (FTE)</i>            | 13.3   | 14.0    |
| <i>Scheme members per 1 staff FTE</i>                       | 2,863  | 2,892   |
| <i>Investment administration costs as % of market value</i> | 0.24%  | 0.35%   |

The main change between the two years is the increased costs per scheme member which reflects the increased investment costs during 2006-07. The majority of this increase relates to increased investment management fees, which are based on market values and continue to increase as the financial markets grow. In 2006-07 there was a one off increase in custody fees due to the appointment of the new custodian, which includes the associated tendering and legal work. Further additional consultancy fees also occurred in 2006-07 from work commissioned to implement the revised investment strategy, including the tender process for three new investment mandates.

### Contributions to Additional Voluntary Contribution Funds

Scheme members paid contributions totalling £x million (*figure o/s from AVC provider*) (£0.190 million in 2005-06) into their AVC funds during the year. At the year-end, the value of funds invested on behalf of Scheme members totalled £2.959 million (£2.930 million as at 31 March 2006), made up as follows:

|   | £ million |
|---|-----------|
| <i>Equitable Life Assurance Society</i> |           |
| - With Profits Fund                     | 1.231     |
| - Unit Linked Managed Fund              | 0.366     |
| - Building Society Fund                 | 0.069     |
| <i>Clerical Medical Funds</i>           |           |
| - With Profits Fund                     | 0.139     |
| - Unit Linked Managed Fund              | 0.802     |
| <i>NPI Funds</i>                        |           |
| - Managed Fund                          | 0.023     |
| - With Profits Fund                     | 0.201     |
| - Global Care Unit Linked Fund          | 0.075     |
| - Cash Deposit Fund                     | 0.052     |

## **8. FURTHER INFORMATION & CONTACTS**

The County Council produces a number of other publications, as well as this booklet to support its role as administering authority of the Wiltshire Pension Fund. You can request these from the Pensions Section at County Hall, Trowbridge.

### **Guide to the Local Government Pension Scheme**

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

### **Employers' Guide**

This is a loose-leaf format publication specifically aimed at staff within employer bodies with responsibility for providing information to the Pensions Section in respect of Scheme administration. This will include details of employees within their organisation who are joining the Scheme, and Scheme members who are retiring, or who may have a change in circumstances affecting their pension entitlements.

### **Starter Packs**

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

### **Retirement Packs**

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

### **Newsletters**

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

### **Annual Benefit Statements**

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

### **Other information**

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

#### **For further information contact:**

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