Wiltshire Council
Where everybody matters

AGENDA

Meeting:	Wiltshire Pension Fund Committee
Place:	Kennet Room - County Hall, Trowbridge BA14 8JN
Date:	Thursday 5 June 2014
Time:	**10.30 am**

Please direct any enquiries on this Agenda to Jessica Croman, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718262 or email jessica.croman@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	5 June	09:30am	Kennet Room

Membership:

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

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

Swindon Borough Council Members
Cllr Brian Ford
Cllr Des Moffatt

Substitute Members
Cllr Oliver Donachie

Employer Body Representatives
2 Vacancies

Observers
Mr Tony Gravier
Mr Mike Pankiewicz

PART I

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

1 **Membership**

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

3 **Apologies for Absence**

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

To confirm the minutes of the meeting held on 6 March 2014 *(copy attached)*.

5 **Chairman's Announcements**

- Members Training
- Baillie Gifford Meal
- Replacement latest on LC

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, no later than **5pm on 29 May 2014**. 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 **SWAP Internal Audit Report** *(Pages 7 - 20)*

Treasurer to the Pension Fund presents the internal audit report for the Wiltshire Pension Fund for members' to note.

9 **Pension Fund Administration Outturn Statement 2013-2014** *(Pages 21 - 22)*

A report presents the Fund's outturn statement for the last financial year.

10 **LGPS 2014 Reforms Update**

A verbal update from the Head of Pensions on the latest positions on the LGPS reforms.

11 **Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies Consultation** *(Pages 23 - 52)*

The Head of Pensions presents the report that outlines the Government response to the Call for Evidence and the current consultation. Members are asked to approve the draft response which will be circulated prior to the meeting.

12 **Members Training Plan Update** *(Pages 53 - 60)*

The Head of Pensions presents a report that outlines the next steps in developing the Members Training Plan.

13 **Pension Fund Risk Register** *(Pages 61 - 68)*

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

14 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on 7 July 2014.

15 **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.

16 **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 17 - 19 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.

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

17 **Investment Quarterly Progress Report Update** *(Pages 69 - 122)*

Two confidential reports from the Fund Investment & Accounting Manager and Mercers will be circulated updating the Committee on the generic performance of the Fund's investment managers.

18 **Baillie Gifford - Formal Review of the Global Growth Fund mandates** *(Pages 123 - 188)*

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

19 **Legal & General - Formal Review of the Passive UK equities and Passive Gilts Funds** *(Pages 189 - 242)*

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

Wiltshire Council

Where everybody matters

WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 6 MARCH 2014 AT KENNET ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.

Present:

Cllr Tony Deane (Chairman), Cllr Brian Ford, Cllr Charles Howard (Vice-Chair), Cllr Des Moffatt, Cllr Mark Packard and Cllr Roy While

Also Present:

Mr Jim Edney, Tony Gravier, Joanne Holden and Mike Pankiewicz

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11 **Membership**

There were no changes of membership.

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

There were no non-member attendees.

13 **Apologies for Absence**

Apologies for absence were received from Cllr Shelia Parker, Cllr Dick Tonge, Mrs Lynda Croft and Mr Tim Jackson.

14 **Minutes**

The minutes of the meeting held on 4 December 2013 and the special meeting on held on the 24 January 2014 were presented for consideration. It was;

Resolved:

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

15 **Chairman's Announcements**

It was announced that the committee were invited to attend the LGPS Road show following the meeting at 12:15pm.

The Chairman gave feedback following discussions with Claire Perry MP as agreed at minute 99 of the meeting on 4 December 2013, noting there had been would be no changes to the implementation of the new system.

16 **Declarations of Interest**

There were no declarations of interest.

17 **Public Participation and Councillors' Questions**

There were no questions or statements submitted.

18 **Treasury Management Strategy**

The Strategic Pension Manager noted the key points of the strategy and highlighted that there had been no changes made to the Treasury Management Strategy for Wiltshire Pension Fund since last year.

A question was raised asking how often the Money Market accounts were managed and reviewed and it was explained that the accounts were managed by consultants and reviewed regularly. It was noted that more information on the reviews and updates was required by the committee and should be included in the agenda going forward. It was;

Resolved:

To APPROVE the Treasury Management Strategy.

19 **Pension Fund Risk Register**

The Head of Pensions presented the updated Pensions Fund Risk Register, noting there had been 4 changes since the last meeting.

Attention was drawn to items 5 to 8 in the report noting the changes from amber to green. It was mentioned that PEN012 – Over reliance on key officers, had reduced from amber to green reflecting the appointment of the Strategic Pension Manager. A question was raised concerning the change from amber to green and it was explained that the pension team had not been affected by Council wide redundancies and it was a separate budget funded by all the employer bodies in the scheme and as such the risk level was lower than that of the council. It was also mentioned that training for the pension fund committee would be arranged shortly to take place on topics that need to be addressed for the following year.

A question was raised that if employer bodies are increasing then the risk should also increase. It was explained that the additional employers are academies joining the pension scheme and that the liabilities already existed but had been transferred from the relevant local authority. However. this situation would be monitored. Concerns were raised on the amount of control the pension scheme had on the amount of employers joining the scheme. It was explained that most of the new employers were academies who as Scheduled Bodies had to be allowed to enter the Fund. However, regular reporting to Committee of new entrants would be implemented. It was suggested that early warning systems were needed and tighter controls on payments to ensure organisations do not get behind with their contributions. It was explained that there is a monitoring system in place which follows up regularly with late payers and that in future the Pension Regulator will require disclosure of late payment to them when they become responsible for the LGPS from April 2015.

It was noted that the number of employers had risen from 63 to 133 and that the Fund was currently looking into expanding additional risk controls and employer covenant monitoring to ensure the security of all these employers..

It was;

Resolved:

That the committee note the Risk Register and measures being taken to mitigate risks.

20 **Public Service Pension Act and LGPS Structural Reforms Update**

The Head of Pensions gave a presentation on the Pension Act and LGPS Structural Reforms. He provided background information on the Government's objectives for LGPS structural review and explained it was thought that initially their intentions could be to merge funds in an attempt to reduce deficits. Wiltshire Council's views included that collaboration was working and getting the best results and did not agree on reducing the number of funds would assist in the primary objectives of reducing deficits and improving investment performance.

A shadow scheme board had recently analysed and made recommendation to the Government highlighting that the funds are hard to compare and a format is needed to enable comparison. Attention was drawn to the recommendations that:

- Government should consult on options for reform ASAP.
- The Government by summer 2014, agree a realistic timetable for reform.
- The Board support the Government by a) developing a shortlist of feasible options for managing deficits and b) conducting further research on key options for reform.

It was mentioned that the Government are now waiting for the Hymans Robertson report which is considering 3 options:

- Merging of funds into a fewer number

- National Collective Investment Vehicles
- Regional Collective Investment Vehicle

The latter two would aim to merge assets together to reduce investment fees either on a national or regional basis.

Attention was drawn to the Public Services Pension Act 2013 and the regulatory requirements of public pension schemes. It was noted that the structure of the public pension schemes would change to include a local pension board and that it was a requirement of Wiltshire Council to have a board.

Questions around conflicts of interest on the local pension board was raised and it was mentioned that this was a concern considering that the pension committee where decisions are made, do not mandatorily have to have extensive knowledge and skills in relation to pensions, whereas the local pension board members do require extensive skills but do not make executive decisions. It was suggested that the committee examine existing boards and the models other authorities have taken and an update would be given for the next agenda.

Resolved

That the committee note the updates on the LGPS.

21 **2014 Triennial Valuation Update**

The Head of Pensions gave a verbal update on the employer contribution rates from April 2014 and it was;

Resolved

That the committee note the finalised employer contribution rates for 2014 to 2017.

22 **LGPS 2014 Implementation Update**

The Head of Pensions introduced the item and gave a verbal update drawing attention to the communications strategy and the work the pension's team have carried out to communicate with members and employers. An update was given on where the pension's team was on implementing the LGPS, highlighting the current testing of the software and that everything was on track and should be ready for 2015.

It was suggested by the Committee that the current employee's communications be collated and circulated in a pack Members to see.

23 **Wiltshire Pension Fund Administration 2013-14 Budget Monitoring**

The Strategic Pension Manager introduced the budget drawing attention to the under spend explaining that this had occurred manly due to lower investment manager fees due to the move to more 'pooled fund' mandates which had reduced the fees.

Following which it was,

Resolved

That the committee note the 2013-2014 Budget Monitoring and thanked the pension team for their work.

24 **Wiltshire Pension Fund Administration Budget 2014-17**

The Treasurer to the pension fund outlined the proposed administration budget for 2014-2015 and the planned expenditure in 2015-2016 and 2016-2017.

Attention was drawn to item 7 on the report highlighting the difficulty of estimating management fees. Although, increased management fees should reflect the good performance by the investment managers.

As a result, it was;

Resolved

That the committee:

A) Approve the Pension Fund Administration Budget 2014-2015
B) Note the indicative budget allocations for 2015-2016 and 2016-2017.

25 **Date of Next Meeting**

It was confirmed that the next regular meeting of this Committee would be held on Tuesday 5 June 2014.

26 **Urgent Items**

There were no urgent items.

27 **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 28 because it is likely that if members of the public were

present there would be disclosure to them of exempt information defined in paragraph 3 of Part 1 of the Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Paragraph 3 – information relating to the financial or business affairs of any particular person (including the authority holding that information).

28 Investments Quarterly Progress Report

The Strategic Pension Manager reported on the key issues of the Fund's investment performance as at 31 December 2013. It was said to have been a busy period but with good performance.

It was;

Resolved

That the committee note the two investment reports and updates.

29 LGPS 2014 Roadshow

The committee attended the LGPS road show.

(Duration of meeting: 10.30 am - 12.15 pm)

The Officer who has produced these minutes is Jessica Croman, of Democratic Services, direct line 01225 718262, e-mail jessica.croman@wiltshire.gov.uk

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

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
5 June 2014

INTERNAL AUDIT REPORT

Purpose of the Report

1. This report informs Members of the findings of the internal auditors report from South West Audit Partnership (SWAP) on the Wiltshire Pension Fund from their 2013-14 audit.

Background

2. The internal audit of Pensions has been completed by SWAP in accordance with the Internal Audit plan for 2013-14. The scope of this audit was to assess the adequacy of key controls and procedures in place for Pensions.

3. This supports the annual audit undertaken by KPMG (the external auditors). The key controls identified for this audit are set out within the Audit Report attached.

Key Considerations for the Committee

4. There were no significant findings to report from this audit so no Action Plan is proposed.

5. The attached report provides a summary of the audit findings and assurance that, in no order of priority, each of the expected key controls are in place and adequately managing the associated risk.

6. Internal Audit has reported a "Substantial Assurance" opinion. This is the highest assurance achievable and means that internal controls are in place and operating effectively and risks against the achievement of objectives are effectively managed.

Risks Assessment

7. The risks reflected in this Internal Audit report are included in the Risk Register which is updated quarterly and presented to this Committee.

Financial Implications

8. The fee for this audit is based on an annual recharge.

Legal Implications

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Proposals

11. The Committee is asked to note the attached Internal Audit Report.

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

Final Report

Wiltshire Council

▶ Pensions: Key Controls

Issued to: Catherine Dix
Strategic Pension Manager
Wiltshire Pension Fund

David Anthony
Head of Pensions

Michael Hudson
Associate Director - Finance

Carolyn Godfrey
Corporate Director

Gerry Cox
Chief Executive - SWAP

Working in partnership with

Date of Report: 28 April 2014

Issued by: Denise Drew
Audit Manager

Neil Seymour
Lead Auditor

Pensions

Management Summary

As part of the 2013-14 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Pensions. This is to support the annual audit undertaken by the organisation's External Auditors.

The Key Control audit process focuses primarily on key risks relating to the organisation's major financial systems. It is essential that all key controls identified by the External Auditor are operating effectively to provide management with the necessary assurance. The key controls identified for this audit are discussed in the 'Detailed Audit Report' which follows this Summary.

This report provides Management with a summary of the audit findings and assurance that, in no order of priority, each of the expected key controls are in place and managing the associated risk in a 'satisfactory' manner. No significant weaknesses have been identified during this audit, so no Action Plan is proposed.

Summary of Significant Corporate Risks

The audit was undertaken to provide assurance that effective controls are in place for the following key risks identified by the external auditor:

1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.
2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.
3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.
4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.
5. Failure to undertake bank reconciliations risks undetected error, material misstatement of balances and fraud.
6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.
7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

Summary of Significant Findings

There were no significant findings identified during this review.

Further details of audits' findings can be viewed in the full audit report, which follows this Management Summary.

Conclusion and Audit Opinion

Substantial

I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Detailed Audit Report

Objectives & Risks

The key objective of the service and risks that could impact on the achievement of this objective were discussed and are identified below.

Objective: To provide assurance on the effectiveness of mandatory key controls required by external audit, including:

- Authorisation of benefit payments including transfer out payments and lump sums on death or retirement
- Production and independent review of exception reports for pension payroll
- Authorisation of starters and leavers for the pension payroll
- Periodic reconciliation of the pension payroll system to the general ledger
- Bank reconciliations

Risks:

1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.
2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.
3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.
4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.
5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.
6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.
7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

Method & Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;

- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;

- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

The audit covers the operation of controls during the first three quarters of financial year 2013-14.

Findings

The following paragraphs detail all findings that warrant the attention of management.

The findings are all grouped under the objective and risk that they relate.

1. **Risk:** 1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.

1.1 Key Control: Payments from the Pension Fund are appropriately authorised and reviewed, including lump sums on death, lump sums on retirement and transfer out payments.

The audit confirms there are appropriate processes within the Altair pensions system which ensure the effective operation of controls over the review and authorisation of payments, including lump sums on death, lump sums on retirement and transfers out. When an officer in the Pensions Team completes a calculation within Altair, it is assigned to a checklist and another member of the team completes the process by checking the tasks and items within the checklist before the payment can be released. The payment is authorised by the team leader or manager before being sent to payroll for payment.

An Audit sample was selected which consisted of 15 cases made up of 5 lump sum payments on death, 5 lump sum payments on retirement and 5 transfer out payments.

Copies of the relevant leaver forms and benefit calculations and payment schedules were obtained from the Pensions team. It was confirmed that the benefit calculation summaries and subsequent payment schedules had all been appropriately reviewed and authorised. In respect of the sample of death benefits it was confirmed that there was a death certificate on file for all 5 cases in the audit sample.

2. **Risk:** 2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.

2.1 Key Control: Pension payroll exception reports are regularly produced and independently reviewed.

Exception reports are routinely produced by the payroll system. They are investigated by the pensions payroll team and appropriate adjustments made before the payroll can be run. The pensions payroll officers annotate the reports with the results of their investigation of each item and any required changes. They then sign and date the reports to confirm completion.

The pensions payroll exception report for November 2013 was obtained and examined for evidence of review and action by payroll staff. It was confirmed that the exception report shows evidence of investigation, changes made and the report was signed and dated by the payroll practitioner as evidence.

3. **Risk:** 3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.

3.1 Key Control: Records of starters and leavers in the pension payroll are appropriately authorised.

The audit confirms effective controls operate over the addition and removal of pensioners from the payroll. There can be delays in the updating of records but these are invariably due to circumstances beyond the Pension Team's control, such as an employer failing to provide early notification that a person is retiring or the late notification of a pensioner's death.

A sample of 15 pensions payroll new starters was selected and copies of the signed starter forms were obtained. Each one had been actioned by the payroll team in a timely manner once received from the Pensions Team. It was noted that 6 of the new starters in the sample were added to the pensions payroll more than 30 days after their pensions were payable from. However, these delays were found to be due to bank details being returned late to the Pensions administration team from the new starters.

Further testing on the sample of pensions payroll new starters confirmed that in all 15 cases the pension payment amounts had been accurately added to the monthly payroll on SAP.

A sample of 15 pensions payroll leavers was also selected. Testing found that thirteen out of the chosen sample of 15 have been removed from payroll in a timely manner. The two delays were due to the Pension team not being informed of a death by the next of kin.

4. **Risk:** 4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.

4.1 Key Control: The pension payroll system is periodically reconciled to the general ledger.

Internal Audit reports on Pensions in previous years consistently included recommendations that procedures should be developed for reconciling the pensions payroll system to the general ledger. Central Finance have now adopted appropriate procedures which ensure that reconciliations are performed for each period of the financial year. The procedures follow the same principles as used for all other payrolls managed by the Council and are enhanced by the development of bespoke SAP reports to assist the Pensions reconciliation. The relevant control account is also monitored by Pensions to ensure balances are cleared within reasonable timescales.

7. The June 2013 and October 2013 pensions payroll reconciliation spreadsheets were reviewed. It was confirmed that they contained all the information required to complete the reconciliations.

Review of copies of the supporting reconciliation spreadsheets from Central Finance for both June and October 2013 confirmed that each reconciliation casts, all material reconciling items exist and agree to supporting SAP records, and are appropriately dealt with.

5. **Risk:** 5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.

5.1 Key Control: Bank reconciliations are effectively completed.

The Pensions fund bank transactions are maintained within SAP "Company" 2000. They are reconciled to the balances on the bank statements on a monthly basis using spreadsheets which contain copies and downloads of the statements, balances and transactions required for the reconciliation. The audit confirms that reconciliations are being effectively carried out and reviewed.

The June 2013 and October 2013 Pensions Account Bank Reconciliation spreadsheets were reviewed. It was confirmed that they contained all the information required to complete the reconciliations.

Review of copies of the supporting reconciliation spreadsheets from Central Finance for both June and October 2013 confirmed that each reconciliation casts, all material reconciling items exist and agree to supporting SAP records, have been completed by the Fund Investment Manager on a timely basis, and are appropriately dealt with.

6. **Risk:** 6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.

6.1 Key Control: Evidence of regular discussions with Governors and the actuary on the pension deficit.

The Wiltshire Pension Fund Committee (WPFC) is kept fully aware of the situation regarding the pension fund deficit through the presentation of quarterly investment reports at meetings of the Committee. The WPFC meeting in October 2013 discussed the outcome of the (triennial) 2013 Actuarial Valuation of the Wiltshire Council Pension Fund. The Actuaries of the Fund (Hymans Robertson) were in attendance and delivered a presentation on the 2013 Valuation Results.

7. **Risk:** 7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

7.1 Key Control: Management approval of IAS 19 assumptions.

The Wiltshire Pension Fund Report & Accounts for the year ended 31 March 2013 states that the pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the actuarial position statement. This estimate is subject to significant variances based on changes to the underlying assumptions.

The triennial Wiltshire Pension Fund - Actuarial Valuation was carried out as at 31 March 2013 and presented to the WPFC on 10 October 2013. The Terms of Engagement letter for the Actuary (Hymans Robertson) for FRS17/IAS19 reports with effective dates in 2013 sets out the terms on which pension accounting figures are prepared.

The Agreed Action Plan provides a formal record of points arising from this audit and, where appropriate, the action management has agreed to take and the timescale in which the action will be completed. All findings have been given a priority rating between 1 and 5, where 1 is low and 5 is high.

It is these findings that have formed the opinion of the service's control environment that has been reported in the Management Summary.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Objective: To provide assurance on the effectiveness of mandatory key controls required by external audit, including: • **Authorisation of benefit payments including transfer out payments and lump sums on death or retirement** • **Production and independent review of exception reports for pension payroll** • **Authorisation of starters and leavers for the pension payroll** • **Periodic reconciliation of the pension payroll system to the general ledger** • **Bank reconciliations**					
1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.					
There are no significant findings to report					
2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.					
There are no significant findings to report					
3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.					
There are no significant findings to report					
4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.					
There are no significant findings to report					
5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.					

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
There are no significant findings to report					
6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.					
There are no significant findings to report					
7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.					
There are no significant findings to report					

Audit Framework Definitions

Control Assurance Definitions

Substantial		I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable		I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial		I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None		I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Corporate Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.

Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

PENSION FUND ADMINISTRATION BUDGET 2013-14 - FINAL OUTTURN STATEMENT

		2013/14			Explanations
		Budget £000	Outturn £000	Variance £000	
	Fund Investment				
	Investment Management Fees				
	Segregated Funds	3,699	2,870	829	No Performance fee to Baillie Gifford & projected savings from fee negotiations
	Pooled Funds *	2,268	1,991	277	Transition from Edinburgh Partners to lower cost Legal & General RAFI mandate
		5,967	**4,861**	**1,105**	
	Fund Investment Costs				
1	**Investment Administration**	90	94	-4	
2	**Investment Custodial & Related Services**	58	39	19	The move to more "pooled fund" mandates has reduced the custodian fees
3	**Investment Consultancy**	224	110	114	No investment manager search fee incurred & custody review scheduled for 2014-15
4	**Corporate Governance Services**	52	52	0	
5	**Performance Measurement**	41	41	0	
	Fund Investment Costs	465	336	129	
	Fund Scheme Administration				
6	**Pension Scheme Administration**	1,280	1,158	122	Results from vacant post, lower requirement on LGPS 2014 communications costs, and the delay in implementing the back scanning project.
7	**Actuarial Services**	149	239	-90	Additional costs arising from Triennial Valuation, along with increased use of benefit adviser along with additional employer work.
8	**Audit**	57	40	17	
9	**Legal Advice**	25	27	-2	
10	**Committee & Governance**	47	32	15	
	Fund Administration Costs	1,559	1,497	62	
	Total FUND COSTS	**2,024**	**1,833**	**191**	
	TOTAL FUND EXPENDITURE (Costs & Fees)	**7,991**	**6,694**	**1,297**	

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
5 June 2014

LOCAL GOVERMENT PENSION SCHEME (LGPS): OPPORTUNITIES FO COLLABORATION, COST SAVINGS AND EFFICIENCIES CONSULTATION

Purpose of the Report

1. This report introduces the latest consultation issued on 1 May 2014 from the Department of Communities and Local Government (CLG) to inform discussion at this meeting and enable a formal response from the Wiltshire Pension Fund to be finalised.

Background

2. This consultation follows on from the Government's response to the 'Call for Evidence' issued last year on the future structure of the local government pension scheme.

   Call for Evidence on LGPS structural reforms

3. The Government published on 1 May 2014 their response on LGPS structural reforms which looked at the possibility of moving away from the current 89 separate funds in order to improve performance, reduce pension deficits and costs to assist in the long term sustainability of the LGPS. They have also issued a new consultation on "Opportunities for collaboration, cost savings and efficiencies".

4. In the Government's response to the evidence submitted as part of the Call for Evidence consultation last year, they acknowledged the local accountability issues, moving away from mergers, instead recommending that Common Investment Vehicles (CIVs) are used for fund investments with asset allocation decisions retained at a local level.

5. Their evidence was inconclusive as to whether larger funds obtain better investment returns, however it appears clear there are economies of scale and cost savings, in particular on investment fees. They stepped back from looking at potential administrative efficiencies due to the risk associated with merging and will allow the new LGPS 2014 scheme to mature before considering further reform.

6. The research commissioned by the Government (from Hymans Robertson) indicate that investment fees could be significantly reduced if all listed assets were passively managed, as on aggregate across all LGPS funds they produce the same returns after fees as more expensive active management.

7. Therefore, the Government propose all listed assets are passively managed (again through a CIV to benefit from scale) and that only alternatives (i.e. property, infrastructure, hedge funds, etc.) are actively managed, but again done through a CIV to reduce fees.

8. The Government's full response can be viewed at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme

Considerations for the Committee

Government Consultation: Opportunities for collaboration, cost savings and efficiencies

9. The current Government consultation is attached in the Appendix. Based on the cost benefit analysis the Government commissioned from Hymans Robertson they have made a number of assumptions. In summary, the Government believe savings of £660m p.a. can be achieved by reforms to the LGPS by:

    a) Moving to passive fund management of all listed assets accessed through a CIV (£420m)

    b) Ending the use of "fund of funds" arrangements in favour of a CIV for alternative assets (£240m)

10. The Government believe the use of CIVs enable significant savings to be implemented quickly. A further decision is whether these CIVs should operate at a national or regional level, and whether their use should be mandatory.

11. The proposal to move all listed assets to a passive basis is a significant step, but the research they relied upon reflects that on aggregate performance would be unaffected while costs would reduce. The common view is that asset allocation is the most significant influence on investment returns and the Government is proposing this is still carried out at a local pension fund committee level.

12. Also, it is argued that if made mandatory, the use of CIVs could make comparability in investment performance easier as investment costs would be uniform; enabling poorer performing funds to be identified through their asset allocation decisions and governance arrangements.

13. The detailed 104 page LGPS structure analysis by Hymans Robertson can be found at the following link: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

14. The consultation requests responses to the following questions by 11 July 2014:

    ***Q1**. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.*

    ***Q2.** Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?*

    ***Q3.** How many common investment vehicles should be established and which asset class's do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?*

    ***Q4.** What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?*

    ***Q5.** In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?*

a) *Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.*

b) *Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.*

c) *Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.*

d) *Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report*

Overview

15. This proposal to move forward with the use of CIVs, and step away from fund mergers at this stage is a major change but whether the assumed cost savings and improved investment performance can be achieved is the big question. Much will depend on what types of CIVs are set up, how many there are, and how they are governed. This is a complex area and more information and research is required at this stage.

16. The decision to retain local asset allocation arguably assists with maintaining local accountability and feels like a sensible approach.

17. The most contentious issue is the use of passive investment for all listed stock and how this may impact on fund performance. By rejecting all active management for listed assets, is the Fund limiting its ability to outperform the market and ultimately its ability to close its funding gap? Or over the long term does passive management produce the same outcome? The Wiltshire Pension Fund has a 30% strategic allocation to passive management so arguably has already embraced this strategy, but is there a need to go further?

18. The arguments for alternative assets within a CIV may be more attractive due to the obvious economies of scale and high associated fees which are more difficult to access at a smaller level.

19. However, further research needs to be undertaken before finalising a response. Therefore, a proposed draft response will be discussed at this meeting and it is proposed the Committee delegate approval for the final response to the Chairman and Vice Chairman to ensure the 11 July 2014 deadline is met.

Risks Assessment

20. The proposed response does not directly impact on any risks for the Wiltshire Pension Fund.

Environmental Impact of the Proposal

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

22. There are no known implications at this time.

Financial Implications

23. The financial implications are considered as part of this paper but have no immediate impact for the Fund.

Reason for Proposals

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

Proposals

25. Members are recommended to delegate the approval of the formal response to the consultation to the Chairman and Vice Chairman taking into considerations the points raised at this meeting.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

Department for Communities and Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

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Contents

1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.

1.4 The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

1.6 A copy of the Consultation Principles is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

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[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

> **Recommendation 23**: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

[4] Independent Public Service Pensions Commission: Final Report p.17
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf
[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

[6] Local government pension scheme funds summary data: 2012 to 2013
[7] Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

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[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view

[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	Net present value of savings over 10 years (£ billions)
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

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[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

"There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link."

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund's unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely "local", as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

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[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

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[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

> For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

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[16] Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.
[17] Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

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[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

> Local Government Shared Services ("LGSS") Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
5 June 2014

UPDATE OF MEMBERS' TRAINING PLAN

Purpose of the Report

1. The purpose of this report is to outline the next steps in developing a new Members' Training Plan for 2014-16.

Background

2. Ensuring Members are aware of the Pension Fund's activities and that they have the skills and knowledge to, with the assistance of the advisers, make informed decisions is not only good governance but is underpinned by the Myners Principles as outlined in the Fund's Statement of Investment Principles.

3. The CIPFA Knowledge & Skills Framework (KSF) published in 2009 provides a framework to encourage a formal and structured approach to Members training. It's primary objective is to encourage training plans for Members that take a medium term view aligned with the major events of a Fund, namely the triennial valuation and local election cycles. The training plan needs to show any skills gaps and how these are being addressed.

4. Funds are expected to adhere with the KSF and the Section 151 Officer must sign a declaration in the Fund's Annual Report that a suitable training programme is in place on a "comply or explain" basis.

5. The 2011-13 Members Training Plan was approved by this Committee in December 2010. This was developed after this Committee agreed to undertake a 'Self Assessment' to assist in identifying areas for development.

Main Consideration for Committee

CIPFA Knowledge & Skills Framework

6. The KSF is intended to apply to all members of the Committee (both voting and non-voting). However, CIPFA recognise that funds will tailor their approach to meet their individual needs. The primary objective is the creation of a rolling training plan for Committee Members.

7. There are in total six areas the KSF identify as core technical requirements for those working in public sector pensions. These are:

    a. pensions legislative and governance context
    b. pensions accounting and auditing standards
    c. financial services procurement and relationship management
    d. investment performance and risk management
    e. financial markets and product knowledge
    f. actuarial methods, standards and practices

8. All Members of this Committee require a general awareness in all the areas outlined above but may need a more detailed knowledge of specific issues and principles where necessary to have the confidence to make informed challenges to the information and advice being given.

9. It is recognised that some Members can be appointed to the Committee without any prior pensions knowledge and it is for the Treasurer of the Pension Fund and the Chairman to determine how long members need to meet the level of knowledge and skills set out in the framework.

10. The Pension Act 2004 requires trustees of pension schemes in the corporate sector to obtain the required knowledge and skills set within a six month period. CIPFA realise this might be impractical for LGPS funds and are not prescriptive on specific timescales. However, the Framework will expect Funds to use a "comply or explain" approach to disclosure and provide assurances that it meets the requirements of the KSF in its annual reports.

Method of Self-Assessment

11. The option used in 2010 to develop the previous training plan was for Members of this committee to undertake a high level self-assessment of their knowledge. An example of this can be seen in the Appendix. The results will then be used to inform and update the new Members Training Plan for 2014-16 as it will identify areas where the Committee feel they required more training.

12. A more detailed assessment is carried for the roles of the Chairman and Vice Chairman in conjunction with the Head of Pensions to see if any further training is required for their specific roles which is based against the role profile outlined in the KSF.

13. Therefore, a request will shortly be made to all members of the Committee to complete a self-assessment return over email by the 30 June 2014.

Updated Members' Training Plan

14. A revised Member's Training Plan will then be drafted and approved by this Committee at its September meeting.

Delivery of Members' Training

15. The intention is to hold at least two 'in-house' training days in the year, in the spring and autumn. These are then complemented by 'short seminars' before or during Committee meetings and where applicable, external conferences recommended by officers. Specific training sessions are occasionally set up with investment managers either at County Hall or at their offices as and when required.

16. From time to time, relevant briefing notes will be emailed to Members by officers. Occasionally, webcasts and videos are made available that are specific enough to the Fund and may be of interest to Members, again forwarded by officers.

17. For Members who wish to further their knowledge, there are specific courses that can be attended. The Local Government Pension Committee Annual LGPS Fundamentals 3 day course has been attended and well received by Members of this committee in the past and details will be provided by officers when the next dates become available.

Risk Assessment

18. The proposals in this paper seeks to mitigate PEN17 '*Lack of Expertise on Pension Fund Committee*' in the Risk Register outlined in the paper elsewhere on this agenda and ensure compliance with the Myners principles and the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework*.

Financial Implications

19. An allowance is already held within the Pension Fund Administration Budgets 2014-16 for the Members training, so there are no unplanned financial implications from these proposals.

Legal Implications

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

Environmental Impact of the Proposals

21. This is no environmental impact of these proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

22. There are no known implications at this time.

Proposals

23. The Committee is asked to:

    a) note the imminent request for the completion of the self-assessment exercise to be completed by all Members of the Wiltshire Pension Fund Committee by the end of June 2014; and

    b) note that a revised Members Training Plan based on the results of the high level self-assessment will be presented to the September committee meeting for approval.

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 COMMITTEE - TRAINING NEEDS SELF-ASSESSMENT

HOW DO YOU RATE YOUR KNOWLEDGE ON THE FOLLOWING AREAS (Please tick one box)	Very Little	A Little	Good	Quite Good	Excellent	COMMENTS & SUGGESTIONS
1. Pensions legislative and governance context						
General Pensions Framework						
General awareness of pensions legislative framework in UK.						
Scheme-Specific legislation						
Overall understanding of legislation specific to LGPS.						
Awareness of the LGPS (Benefits, Membership and Contributions) Regs 2007 & LGPS (Admin) Regs. 2008						
Appreciation of LGPS discretions & how formulation of discretionary policies impacts on the pension fund, employers and local taxpayer.						
Knowledge on the role of the Administering Authority in relation to LGPS.						
Pension regulators & advisors						
Understanding of how the roles and powers of the Pension Regulator, the Pension Advisory Service and the Pension Ombudsman relate to the scheme.						
General constitutional framework						
Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employers, scheme members and taxpayers.						
Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.						
Pension scheme governance						
Awareness of the LGPS main features						
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.						

HOW DO YOU RATE YOUR KNOWLEDGE ON THE FOLLOWING AREAS (Please tick one box)	Very Little	A Little	Good	Quite Good	Excellent	COMMENTS & SUGGESTIONS
Knowledge of the duties and responsibilities of committee members.						
Knowledge of the stakeholders of the pension fund and the nature of their interests						
Knowledge of consultation, communication and involvement options relevant to the stakeholders.						
2. Pensions accounting and auditing standards						
Awareness of the Accounts and Audit regulations and the legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.						
Awareness of the role of both internal and external audit in the governance and assurance process.						
3. Financial services procurement and relationship management						
Understanding public procurement						
Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.						
A general understanding of the main public procurement requirements of UK and EU legislation.						
Supplier risk management						
Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.						
4. Investment performance and risk management						
Total fund						
Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.						
Performance of advisors						
Awareness of the Myners principles of performance management and the approach adopted by committee.						
Performance of committee						
Awareness of the Myners principles and the need to set targets for the committee and then report against them.						

HOW DO YOU RATE YOUR KNOWLEDGE ON THE FOLLOWING AREAS (Please tick one box)	Very Little	A Little	Good	Quite Good	Excellent	COMMENTS & SUGGESTIONS
Performance of support services						
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.						
5. Financial markets and products knowledge						
Investment strategy						
Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).						
Understanding of the role of these asset classes in long-term pension fund investing.						
Financial markets						
Understanding the primary importance of the investment strategy decision.						
A broad understanding of the workings of the financial markets and the investment vehicles available to the pension fund and the nature of the associated risks.						
An awareness of the limits placed by regulation on the investment activities of LGPS schemes.						
6. Actuarial methods, standards and practices						
Valuations						
Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.						
Awareness of the importance of monitoring early and ill health retirement strain costs.						
A broad understanding of the implications of including new employers into the fund and the cessation of existing employers.						
Outsourcing						
A general awareness of the relevant considerations in relations to outsourcings and bulk transfers.						

Name:

Signature (if submitted as hard copy):
Date:

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
5 June 2014

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 has been one change since the last report in March 2014.

5. ***PEN006a/b: Significant rises in employer contributions for secure & non-secure employers due to increases in liabilities*** This risk has now been reduced from amber to green following the implementation of new employer contribution rates from the 2013 Triennial Valuation. This is a risk that is beyond the Fund's control to a certain extent due to the liabilities direct reliance on bond yields in the market. These are still at historical low levels so significant increases are at present unlikely. Also, as the employer contribution rates have been finalised these will not change over the next three years as a minimum, so the risk of significant increases in employer contribution rates is currently minimal in the short term.

6. The three remaining amber risks all relate in part to the implementation of the new LGPS 2014 scheme. The implementation strategy has gone well and the new scheme is now in place. As the Transitional Regulations and Government Actuary Department guidance were only issued by the Government in March, it was not possible to amend and sign off all processes by 1 April 2014. Also, some areas of the pension software still require further updates and as such manual calculations are carried out in these cases in the interim. However, the key procedures have been amended and when the remaining areas have been fully implemented a compliance review of all these processes will then be undertaken which will provide the assurance that this risk can then be reduced.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

8. There are no known implications at this time.

Proposals

9. 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

22-May-14

							Current Risk Rating							Target Risk Rating					
Ref.	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk Owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Further Actions necessary to manage the risk**	**Risk Action Owner**	**Date for completion of action**	**Impact**	**Likelihood**	**x**	**Level of risk**	**Date of Review**	**Direction of Travel**
PEN001	**Failure to process pension payments and lump sums on time**	Service Delivery	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Regular review of ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed. Test system now in place for LGPS 2014 and operational. Review of processes as part of the LGPS 2014 implementation on-going	David Anthony		2	2	4	Low	22 May 2014	→
PEN002	**Failure to collect and account for contributions from employers and employees on time**	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	2	1	2	Low	New electronic forms rolled out to all employers to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	22 May 2014	→
PEN003	**Insufficient funds to meet liabilities as they fall due**	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. This shouldn't be an issue for the Fund but it looks likely that investment income might need to be used within the next 12 months.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, modelling of future cashflows.	2	2	4	Low	The "maturity" profile of cashflows is changing as a result of employers outsourcings and redundancy programmes. The cashflow profile is now being carefully monitored as benefits paid slightly exceeded receipts (excluding investment income) during the last financial year.	David Anthony		4	1	4	Low	22 May 2014	→
PEN004	**Inability to keep service going due to loss of main office, computer system or staff**	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan in place. The team have the ability to work from home or remotely if required. The pension system is also hosted by its supplier, which reduces the risk should Wiltshire Council's IT servers fail.	4	1	4	Low	Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required.	Andy Cunningham		4	1	4	Low	22 May 2014	→
PEN005	**Loss of funds through fraud or misappropriation**	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	22 May 2014	→

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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
PEN006 a	**Significant rises in employer contributions for secure employers due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers.	2	1	2	Low	The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation. As bond yields are at historical low levels and the Stabilisation Policy takes a long term view, rates will not increase significantly over the long term.	David Anthony / Andy Cunningham		2	2	4	Low	22 May 2014	↓
PEN006 b	**Significant rises in employer contributions for non-secure employers due to increases in liabilities**	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring as described above. The 2013 Valuation has set rates for the next 3 years.	2	2	4	Low	The rates for the 2013 Valuation were agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers. This "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham		2	2	4	Low	22 May 2014	↓
PEN007 a	**Significant rises in employer contributions for secure employers due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation.	Catherine Dix	Mar-14	2	2	4	Low	22 May 2014	→
PEN007 b	**Significant rises in employer contributions for non-secure employers due to poor/negative investment returns**	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	The review of employers long term financial stability and the policy for stepping in of contribution rates assists in affordability issues and this "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Valuation rates have now been agreed for the next 3 years.	Catherine Dix	Mar-14	2	2	4	Low	22 May 2014	→

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PEN008	**Failure to comply with LGPS and other regulations**	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	3	2	6	Medium	Pension team structure review ensured staff with the relevant skills & knowledge are in post. The Technical & Compliance formulated training plan for the team. There is a project plan for the new scheme. The new regulations have been published however we are still reviewing the transitional regulations which were only released two weeks before the new scheme started.	David Anthony	Mar-14	2	2	4	Low	22 May 2014	→
PEN009	**Failure to hold personal data securely**	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies.	2	2	4	Low	It is intended to do a full data protection audit for the Fund. An imaging system has now been implemented which will improve retention of documents and ultimately will lead to a paperless working environment.	Tim O'Connor	Dec-14	2	1	2	Low	22 May 2014	→
PEN010	**Failure to keep pension records up-to-date and accurate**	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Systems Team 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	Further reconciliations have been implemented between Wiltshire Council payroll and the Fund's data. The new LGPS 2014 requires different data from employers. Checks need to be made this is correct.	Martin Downes	Dec-14	2	1	2	Low	22 May 2014	→
PEN011	**Lack of expertise of Pension Fund Officers and Service Director, Finance**	Professional judgement & activities	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. The Technical & Compliance Manager 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	The team restructure now provides better technical knowledge at the right levels. All key posts are now filled.	David Anthony		2	1	2	Low	22 May 2014	→

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Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN012	**Over-reliance on key officers**	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the 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	The post of Strategic Pension Manager has now been filled which provides additional support that mitigates this risk. A Pension Fund Accountant has been appointed so no vacancies is key posts.	David Anthony	Mar-14	2	1	2	Low	22 May 2014	→
PEN013	**Failure to communicate properly with stakeholders**	Stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor.	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	A comprehensive communication strategy has now been implemented for the LGPS 2014 scheme. Employers have also been reminded of their responsibilities for Autroenrolment.	Zoe Stannard & Andy Cunningham	Nov-14	1	1	1	Low	22 May 2014	→
PEN014	**Failure to provide the service in accordance with sound equality principles**	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	22 May 2014	→
PEN015	**Failure to collect payments from ceasing employers**	Finance	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments. All new admitted bodies now require a guarantor to join the Fund.	2	2	4	Low	Work is on-going to develop monitoring of admitted bodies who are close to cessation to enable the Fund to have an early dialogue with them to ensure costs are met.	Andrew Cunningham	Sep-14	2	1	2	Low	22 May 2014	→
PEN016	**Treasury Management**	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved an updated Treasury Management Strategy in Feb 2013 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	22 May 2014	→

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PEN017	**Lack of expertise on Pension Fund Committee**	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. Now the current training plan has ended Members will have to be reassessed to formulate a new plan.	David Anthony		2	1	2	Low	22 May 2014	⇢
PEN018	**Failure to implement the LGPS 2014 Reforms**	Service Delivery	Failure to implement the LGPS 2014 in time for April 2014 in terms of systems changes, data requirements, communications and training.	Unable to meet the new legislative requirements of the scheme and to administer the Fund correctly.	David Anthony	A communication policy 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 being undertaken by Technical & Compliance Manager to ensure changes are compliant.	3	2	6	Medium	The transitional regulations and GAD guidance were only issued in March and GAD. Therefore, not all changes could be implemented so focus has been on key areas and these were successfully updated. All other areas are being worked on with changes being reviewed by Compliance. The system is being updated by the software provider for areas which couldn't be included in earlier releases due to the late delivery of regulations.	David Anthony		2	2	4	Low	22 May 2014	⇢

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Agenda Item 18

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