

# **WILTSHIRE PENSION FUND**

**Report & Accounts**  
**For the year ended 31 March 2011**

# WILTSHIRE PENSION FUND

## REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

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## **1. Chairman's foreword**

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

The Fund is administered by Wiltshire Council for local authorities and other local government associated organisations. This Report is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund, listed on page 6. The Fund's membership has seen a small increase in the past twelve months while it presently administers the scheme on behalf of 64 employer organisations. Over the year the Fund's assets have increased by £120 million to £1,287 million, which reflects the stabilising of the financial markets since the financial crises of 2008/09 and subsequent recovery between 2009-2011.

The Fund now has 19,500 employees currently contributing to it, a reduction of broadly 400 since last year while the number of retired employees receiving regular payments has increased by around 600 to 11,300. This is an anticipated trend as public bodies restructure in light of reduced funding levels. However, cash flow remains positive as income from employers and employees exceeds payments to pensioners, a situation which although is likely to continue for the foreseeable future will need to be monitored as changes to the scheme may encourage more staff to opt out.

There have been two changes to the Pension Fund Committee during the year. Councillor David Jenkins stepped down from the main committee and was replaced by Councillor Mark Packard. We thank David for his contribution and he will remain involved as a substitute Member. We also welcomed Ms Lynda Croft as an Admitted Body representative for the Education Scheduled bodies within the Fund who replaces her predecessor Mrs Irlene Cooper as Director of Finance for Wiltshire College. We express our thanks to Irlene and offer her our best wishes for the future.

The experience of the Pension Fund Committee ranges from the relatively recently elected to pension enthusiasts. As the complexity of the scheme ever increases then it's essential that Committee Members have the opportunity to gain the appropriate skills and knowledge to assist them to take informed decisions in light of professional advice. To achieve this, following an assessment exercise, a new 3 year Members Training Plan was approved in November 2010 which will endeavour to address any knowledge gaps.

The Committee is constantly looking to improve the performance of the Fund and it attempts to do this by employing the best advisors to provide expert advice to assist them in making effective decisions.

The investment markets overall rose during 2010-11, despite the concerns surrounding the Eurozone, in particular Greece and Ireland, the natural disaster in Japan, along with the uncertainty in North Africa and the Middle East. The annual return for the Fund was 8.0% ahead of its consolidated benchmark of 7.7%. Wiltshire Pension Fund also achieved 47th out of 87 Local Authority funds within the WM Local Authority League tables where the average return of the WM universe was 8.2%. The Committee continues to monitor investment manager performance and is currently undertaking a review of its Investment Strategy.

The triennial actuarial valuation was undertaken during the year based on 31 March 2010 position. Although the valuation came at a difficult time as the economy was emerging from an unprecedented financial crisis, the results were better than originally anticipated with the overall funding level now at 75% (a fall of 10% since 2007), which is broadly in line with the average LGPS scheme. This was in part assisted by the Government's announcement to move the basis of determining the annual pensioners increase from the Retail Price Index (RPI) to the Consumer Price Index (CPI) which reduced the Fund's liabilities. However, the cost of pension provision continues to increase as longevity expectations improve, the membership profile slowly matures and bond yields continue to remain at historically low

levels. This has led to the Fund's actuarial assessed average contribution rate move from 19.5% to 23.9% from 1 April 2011.

Work has continued throughout the year on improving the administration of the Fund. In August 2010 the pension database was upgraded to a windows based version called AltAir and a task management tool started to be implemented which will assist with improving customer service, management of work and should enable greater performance measurements for both the submission of data by employers and the processing of benefits by the Fund. The Fund also joined the CIPFA pension's benchmarking club which monitors administration of the scheme against its peers. Meanwhile, employer and employee communications continue to be a vital activity due to the number of changes facing the scheme including changes to tax relief, auto-enrolment, data records legislation, increased outsourcing, and proposed increases to contribution rates.

March 2010 finally saw the publication of the Independent Public Sector Pensions Commission report led by Lord Hutton which outlined 27 recommendations for the Government to consider, covering the future structure of the benefits and retirement ages as well as wider recommendations on governance and administration. The Government is also due to make an announcement in the respect of increasing member contributions to assist with managing the national budget deficit.

There is a real potential risk that these changes will lead to more members leaving the scheme, at a time when nationally people are being encouraged to make more pension provision, which if significant enough could threaten the long-term sustainability of the LGPS. Therefore, the Fund will have a vital role to play in communicating the benefits of the scheme to ensure good long term decisions are made by its contributing members while ensuring it plays its role in preparing and implementing the reforms when they are known.

**Tony Deane, Chairman**

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

*6 July 2011*

## 2. Basic fund information

### Statistics

#### Year ended 31 March

	2010	2011
<b>Financial data</b>	<b>£000</b>	<b>£000</b>
Gross Income	119,102	123,046
Gross expenditure	73,860	73,699
Market value of investments	1,158,483	1,276,346
Book cost of investments	1,040,577	1,137,626
<b>Performance</b>	<b>%</b>	<b>%</b>
Return on investments	35.9	8.2

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

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

#### Active Members

<b>Active membership at start of year</b>	<b>19,866</b>
New Entrants	1,915
Linked deferred members	47
Unfrozen actives	7
<i>Leavers and exits during the year:</i>	
Retirements	-475
Death	-16
Deferred members	-1,813
Refunds / Transfer outs / opt outs	-62
Other	-13
<b>Active membership at end of year</b>	<b>19,456</b>

#### Pensioners

<b>In payment at start of year</b>	<b>10,737</b>
New pensioners in year resulting from:	
Retirement of active members	475
Retirement of deferred members	363
Cessation of benefits	-258
Other	26
<b>In payment at end of year</b>	<b>11,343</b>

#### Deferred members

<b>At start of year</b>	<b>16,640</b>
New deferred pensioners	1,813
<i>Cessation of deferred pensions resulting from:</i>	
Retirements	-363
Linked to active records	-47
Full commutations	0
Transfers-out	-144
Deaths	-17
Other	1
<b>At end of year</b>	<b>17,883</b>

## Participating employers at 31 March 2011

### **Scheduled bodies**

Wiltshire Council  
Swindon Borough Council  
Wiltshire Police Authority  
Wiltshire & Swindon Fire Authority  
Wiltshire Probation Trust  
Thamesdown Transport  
Amesbury Parish Council  
Blunsdon St Andrews Parish Council  
Bradford-on-Avon Town Council  
Calne Town Council  
Chippenham Town Council  
Corsham Town Council  
Cricklade Town Council  
Devizes Town Council  
Haydon Wick Parish Council  
Highworth Town Council  
Malmesbury Town Council  
Marlborough Town Council  
Melksham Town Council  
Melksham Without Parish Council  
Mere Parish Council  
Purton Parish Council  
Salisbury City Council  
Stratton St Margaret Parish Council  
Trowbridge Town Council  
Warminster Town Council  
Westbury Town Council  
Wilton Town Council  
Wootton Bassett Town Council  
Wroughton Parish Council  
New College  
Swindon College  
Wiltshire College  
Bishop Wordsworth Academy  
Goddard Park Primary School Academy  
Hardenhuish School Ltd  
Lavington Academy  
Sarum Academy  
South Wiltshire Grammer  
Swindon Academy  
Wellington Academy

### **Admitted bodies**

ABM Catering Ltd  
Action for Blind People  
Aster Group  
Aster Property Management  
Barnados  
Capita Business Services Ltd  
Caterlink  
CIPFA  
Community First  
DC Leisure  
Direct Cleaning  
English Landscapes  
Focsa Services  
Norwest Hoist (Vinci)  
Ridgeway Community  
Ridgeway Partnership  
Salisbury and South Wilts Museum  
Sarsen Housing Association  
Selwood Housing  
Swindon Commercial Services  
Swindon Dance  
The Order of St John Care Trust  
Westlea Housing Association

### **3. Governance of the fund**

#### **Administering authority**

Wiltshire Council  
County Hall  
Trowbridge  
Wiltshire BA14 8JN

#### **Pension fund committee as at 31 March 2011**

<b>Wiltshire Council officers</b>	Councillor Tony Deane (Chairman) Councillor Charles Howard (Vice Chairman) Councillor Mark Pachard Councillor Jeff Osborne Councillor Sheila Parker
<b>Swindon Borough Council members</b>	Councillor Des Moffatt Councillor Peter Stoddart
<b>Employee observers</b>	Mike Pankiewicz – Wiltshire Council Tony Gravier – Swindon Borough Council
<b>Admitted bodies</b>	Mr Tim Jackson – Westlea Housing Association
<b>Education scheduled bodies</b>	Ms Lynda Croft – Wiltshire College

#### **Officers, advisors & managers at 31 March 2011**

<b>Wiltshire Council officers</b>	Dr Carlton Brand – Director of Resources Michael Hudson – Chief Finance Officer David Anthony – Head of Pensions
<b>Investment managers</b>	Baillie Gifford & Co Capital International Ltd ING Real Estate Investment Management Western Asset Management Co Ltd Edinburgh Partners Fauchier Partners Record Currency Management Plc Legal & General M&G Financing Fund
<b>AVC providers</b>	Equitable Life Assurance Society Clerical Medical Funds NPI Funds Prudential
<b>Investment consultant</b>	Hymans Robertson
<b>Actuary</b>	Hymans Robertson
<b>Independent adviser</b>	Jim Edney, Independent Pension Fund Adviser
<b>Auditor</b>	KPMG LLP
<b>Custodian</b>	BNY Mellon
<b>Legal adviser</b>	Osborne Clarke

#### **Policy documents**

The Fund's Governance Policy Statement and its Communications Policy Statement are available upon request or can be viewed at [www.wiltshirepensionfund.org.uk](http://www.wiltshirepensionfund.org.uk). The Fund's Governance Compliance Statement can be viewed on page 8.

## 4. Governance compliance statement

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



	<p>represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i. employing authorities (including non-scheme employers, eg, admitted bodies);</li> <li>ii. scheme members (including deferred and pensioner scheme members);</li> <li>iii. independent professional observers; and</li> <li>iv. expert advisors (on an ad-hoc basis).</li> </ul> <p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p><b>FULL – four representatives in total, two from Swindon Borough and two from Admitted Bodies</b></p> <p><b>FULL – two representatives from UNISON, who represent active, deferred and pensioner members</b></p> <p><b>FULL – Our Independent Pension Adviser, who attends all meetings, fulfils this role and feeds back any observations to the Chief Finance Officer and/or Head of Pensions</b></p> <p><b>FULL – Hymans Robertson (the Fund’s Actuary and Investment Consultant) attends all meetings where expert advice is required</b></p> <p><b>FULL – All members of the Committee are given equal access to papers, meetings and training and are able to fully participate in debates.</b></p>	<p>N/A</p> <p>see A) b) above</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
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C) Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<b>FULL – Full Induction Training and Governance is given and each member is given a Members’ Handbook outlining their responsibilities amongst other information.</b>	<b>N/A</b>
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	<b>FULL – this is a standard part of committee procedure.</b>	
D) Voting	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	<b>FULL – The Committee has afforded each of its members voting rights, except the UNISON Observers who represent members. Being a statutory pension scheme, the local committee has very little influence over benefits and the members are fully protected by statute. Therefore, there is very little that scheme members (or their representatives) can influence on the committee that has any direct impact upon them. Further, giving voting rights to the observers would mean increasing the size of the Committee, because the Administering Authority must legally be able to maintain a majority.</b>	<b>N/A</b>
E) Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	<b>FULL – There is a Members’ Training Plan which is updated regularly and fully implemented. All members (including observers) have full access to all training opportunities and are allowed to claim all reasonable expenses.</b>	<b>N/A</b>

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

I) Publicity	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	<b>FULL – the Governance Compliance Statement is available on the Wiltshire Pension Fund Website and in the Wiltshire Pension Fund Annual Report</b>	<b>N/A</b>
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## **5. Administration report**

### **Recent developments**

Eight new employers joined the Wiltshire Pension Fund during 2010/11. Caterlink joined on 1 April 2010 and Bernardo's on 1 May 2010 as admitted bodies from the result of outsourcing of services. The following academies joined as scheduled bodies: Hardenhuish School, Goddard Park Primary School & Sarum (September 2010), Lavington & South Wilts Grammar (January 2011) and Bishop Wordsworth (March 2011).

Two employers left the Fund during the year. Avon & Wiltshire Partnership and Cricklade District & Community Association both ceased its membership when its only active members retired.

The full list of employers can be seen on page 6.

During 2010/11 the following strategies and policies were approved by the Wiltshire Pension Fund Committee.

### **Funding Strategy Statement**

This statement, approved by the Committee in March 2011 sets out how the Fund attempts to balance its conflicting aims of affordable contributions, stability of employers' contributions, while being prudent when setting its funding basis. It's written in collaboration with the Fund's Actuary and Investment Adviser.

The Funding Strategy Statement (FSS) sets out the objectives of the funding policy which main aim is trying to achieve a funding level of 100%, both at the whole Fund level and for the share attributable to individual employers, within a timescale that is prudent and affordable while ensuring there are sufficient liquid funds available to meet all benefits as they fall due for payment.

The FSS is reviewed in detail at least every third year (in which triennial valuations are carried out), with the next full valuation due to be finalised by March 2014 based on data at 31 March 2013.

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

<http://www.wiltshirepensionfund.org.uk/fundingstrategy.pdf>

### **Treasury Management Strategy**

This strategy was updated in March 2011. The purpose is to outline the process and policies for the cash held by the Fund. Each month the Fund receives contributions and transfer in payments and pays out benefits and transfer out sums. The surplus is transferred on a monthly basis to the Fund's investment managers. A balance of between £1.5m to £2m is held by the Fund to manage short term cashflows.

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

The latest strategy outlines the maximum limits for a single counterparty, increased from £3m to £8m to ensure a counter party could be removed at short notice and not breach this limit.

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

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

## Communications

The Fund has worked hard during the year trying to keep employers and employees updated with the latest changes affecting the scheme.

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

Members have also been notified in regards to a number of important issues including the window to aggregate previous LGPS service, changes to the pension tax relief regime, the increase in the state pension age and the current position on the proposed changes to the scheme by the Government as a result of the Hutton Review.

The Fund's website is constantly updated and reviewed to ensure the latest information is available for members. This included a refresh of all the factsheets, details of how the Hutton Review may affect members, pension tax relief calculators, along with relevant Fund updates.

The Fund's Communications Policy Statement outlines the provision of information and publicity about the Scheme to its members, representatives of members and employing authorities. The current policy was approved by the Committee in September 2009 and the full document can be viewed on the Wiltshire Pension Fund website at:-

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

## AVC provider

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

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

## **Management of the scheme**

The members who served on the Wiltshire Pension Fund committee during the year are listed on page 7.

At the end of 2010, Mrs. Irlene Cooper from Wiltshire College who was the representative from the education scheduled bodies on the committee stepped down for personal reasons. Following a recruitment process, her successor at Wiltshire College, Ms Lynda Croft was appointed by the Committee as her replacement.

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

The Committee met five times last year for regular business and an additional meeting was held last September to consider the outcome of the 2010 triennial valuation. All decisions are taken by a simple majority with the Chairman having the casting vote.

### **Employer issues**

The Wiltshire Pension Fund employ an Employer Relationship Manager (Andrew Cunningham) whose role is to act as an advocate for employers and help foster relationships. There is an Employers' Guide also available, including details of the Fund's discretions policy which can be found on the Fund's website. This can be used as a substantive source of employer information, along with the regular technical newsletters that we send employers and the quarterly "Pensions Liaison Officers Group (PLOG)" meetings for employers.

A charging policy is now applied to all new instructions since 1 April 2009. This is due to significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of the increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this. Historically, these costs have been spread across all employers, although the activity tends to be the result of decisions made by a small number of employers. Considering this, the Wiltshire Pension Fund Committee approved a charging policy to cover these specific costs. Full details can be found on the Wiltshire Pension Fund website at:-

<http://www.wiltshirepensionfund.org.uk/employer-admitted-body/charging-policy.htm>

### **Operational improvements**

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

The Wiltshire Pension Fund has recently upgraded its pension administration database and is currently implementing a workflow management tool. The next step will be the adoption of an electronic imaging filing system. These changes will provide better functionality and reporting for staff, management and ultimately the service to our scheme members.

### **Pension increase**

Pensions in payment were increased by 3.1 percent effective from 6 April 2011. Pensions commencing in the 12 months preceding 6 April 2011 have received an increase based on the 3.1 percent pro-rated for the length of time the pension has been in payment to 6 April 2011.

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

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

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

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

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

During the past 12 months, Lord Hutton led the Independent Public Service Pensions Commission review of all public sector pensions. His final report was published on 10 March 2011 outlining 27 recommendations.

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

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

What this could mean for the LGPS is a move to a Career Average Revalued Earnings (CARE) scheme, the increase in Normal Retirement Age (NRA) in line with the State Pension Age (SPA), fixed cost ceilings for employer contributions, and potentially no longer allowing any new non-public sector workers into the Fund.

The Government, in its latest budget announced it welcomed the recommendations outlined by Lord Hutton and will take all these into consideration when proposing the scheme changes in the autumn of 2011 which will be implemented by 2015.

The Government is also committed to finding £2.8bn savings per annum by 2014-15 through increasing pension contributions. This equates to an average increase of 3.2% per member's contributions. The fear is this may lead to a increased member 'opt-outs' which could impact on the long term costs and sustainability of the scheme.

The Government has now recognised the funded nature of the LGPS (i.e. assets are held and invested to pay liabilities) and separate talks will now take place between stakeholders to explore whether alternative ways to deliver some or all of these savings can be found. A further announcement will be made in October 2011.

### **Other matters**

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



## **6. Training report**

### **Approach**

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

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

The Chief Finance Officer is responsible for ensuring that these training plans and strategies are implemented.

### **Recent Developments**

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

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

In particular, Principle 1 'effective decision making' states:  
Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

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

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

### **Assessments & Training Undertaken**

#### **Members of the Committee**

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

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

Topic:	Delivered by:
<p>Governance:</p> <ul style="list-style-type: none"> <li>• Legal Responsibility of Committee &amp; Officers</li> <li>• Delegations to Officers</li> <li>• Governance Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Members' briefing note</li> <li>• Short seminar</li> </ul>
<p>Benefits:</p> <ul style="list-style-type: none"> <li>• Discretions Policies of Fund and Employers</li> <li>• Member Communications (including Benefits Statements)</li> <li>• Assessing quality/risks of administration service</li> <li>• Data Protection / Security</li> </ul>	<ul style="list-style-type: none"> <li>• Internal training day</li> <li>• External conferences</li> </ul>
Employer Types & Risks	<ul style="list-style-type: none"> <li>• Internal training day</li> </ul>
Actuarial Valuations & Funding	<ul style="list-style-type: none"> <li>• Internal training day</li> <li>• External conferences</li> </ul>
Investment Regulations & Guidance	<ul style="list-style-type: none"> <li>• Short seminar</li> </ul>
<p>Investment Strategy/Asset Allocation:</p> <ul style="list-style-type: none"> <li>• Employer covenant</li> <li>• Risk budgeting &amp; Asset Allocation</li> <li>• Asset classes in detail</li> <li>• Active v Passive</li> </ul>	<ul style="list-style-type: none"> <li>• Internal training day</li> <li>• External conferences</li> <li>• Webcast</li> </ul>
<p>Investment Management:</p> <ul style="list-style-type: none"> <li>• Benchmark setting</li> <li>• Pooled v Segregated</li> <li>• Transaction costs / Fees / Commission Recapture</li> <li>• Securities Lending</li> <li>• Investment instruments</li> <li>• Investment terms</li> <li>• Risk measurement</li> <li>• Rebalancing</li> </ul>	<ul style="list-style-type: none"> <li>• Internal training day</li> <li>• External conferences</li> <li>• Webcast</li> </ul>
<p>Environmental, Social &amp; Governance:</p> <ul style="list-style-type: none"> <li>• Voting</li> <li>• Activism (eg. LAPFF)</li> <li>• Best Practice (eg. UNPRI)</li> </ul>	<ul style="list-style-type: none"> <li>• Internal training day – PIRC</li> <li>• External conferences – LAPFF conference</li> </ul>

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

At the same time the Chairman and Vice-Chairman to the Committee were assessed on a 'one to one' basis with officers against the role specification outlined in the CIPFA pension

finance Knowledge & Skills framework with additional training requirements identified within the plan specific for their roles.

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

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

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

#### Officers to the Pension Fund Committee

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

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

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

Michael Hudson  
Chief Finance Officer  
28 July 2011

**WILTSHIRE PENSION FUND COMMITTEE – MEMBERS’ TRAINING PLAN – NOVEMBER 2011-**

**2013**

TRAINING NEED	PROPOSED DELIVERY METHODS							COMPLETION TARGET DATE
	Member's Handbook	Members' Briefing Notes (Electronic)	Short Seminars (before Committee meeting)	Internal Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (eg. Webcasts, Videos)	One-to-One Briefing with an officer	
<b>GENERAL TRAINING</b>								
General overview of LGPS	✓							Completed
Members' individual needs on specific areas arising during the year		✓			✓	✓	✓	As required - notify Head of Pensions
Specific items on committee agendas		✓	✓					As required
<b>SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS</b>								
<b>General Pension Framework</b>								
<ul style="list-style-type: none"> <li>• LGPS discretions &amp; policies</li> <li>• Implications of the Hutton Review</li> </ul>		✓	✓	✓	✓			31-Oct-11 30-Apr-11
<b>Pensions Legislation &amp; Governance:</b>								
<ul style="list-style-type: none"> <li>• Roles of the Pension Regulator, Pension Advisory Service &amp; Pension Ombudsman in relation to the scheme</li> </ul>		✓		✓				30-Apr-12
<ul style="list-style-type: none"> <li>• Review of Myners principles and associated CIPFA &amp; SOLACE guidance</li> </ul>		✓		✓				30-Apr-12
<b>Pension Accounting &amp; Auditing standards:</b>								
<ul style="list-style-type: none"> <li>• Accounts &amp; Audit regulations and the legislative requirements</li> </ul>			✓					31-Oct-11
<b>Financial Services procurement:</b>								
<ul style="list-style-type: none"> <li>• Current public procurement policy &amp; procedures</li> <li>• UK &amp; EU procurement legislation</li> </ul>				✓				31-Oct-11 31-Oct-11
<b>Investment Performance &amp; Risk Management:</b>								
<ul style="list-style-type: none"> <li>• Monitoring asset returns relative to liabilities</li> <li>• Myners principles of performance management</li> <li>• Setting targets for committee and how to report against them</li> </ul>				✓	✓	✓		Invite to be circulated to relevant ones 31-Oct-12 31-Oct-12 31-Oct-12
<b>Financial markets &amp; products knowledge:</b>								
<ul style="list-style-type: none"> <li>• Refresh the importance of setting investment strategy</li> <li>• Limits placed by regulation on investment activities in the LGPS</li> <li>• Understanding of the operations of the fixed income manager</li> </ul>			✓	✓		✓		31-May-12 Visit to WAM by 30-Apr-11
<ul style="list-style-type: none"> <li>• Understanding of Alternative asset classes</li> </ul>				✓				30-Apr-11

TRAINING NEED	PROPOSED DELIVERY METHODS							COMPLETION TARGET DATE
	Member's Handbook	Members' Briefing Notes (Electronic)	Short Seminars (before Committee meeting)	Internal Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (eg. Webcasts, Videos)	One-to-One Briefing with an officer	
<b>Actuarial methods, standards and practices:</b> <ul style="list-style-type: none"> <li>• Considerations in relation to outsourcings and bulk transfers</li> <li>• Triennial Valuation refresher</li> </ul>			✓ ✓					31-Oct-12 30-Apr-13
<b>CHAIRMAN / VICE CHAIRMAN TRAINING</b>								
<ul style="list-style-type: none"> <li>• Fund benchmarking</li> <li>• Stakeholder feedback</li> <li>• Appreciation of changes to scheme rules</li> </ul>					✓		✓ ✓	31-Oct-11 31-Oct-11 Invite to be circulated to relevant ones

## 7. Investment report

### **Funding policy**

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

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

[www.wiltshirepensionfund.org.uk/fundingstrategy.pdf](http://www.wiltshirepensionfund.org.uk/fundingstrategy.pdf)

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

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

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

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

### **Investment goal**

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

### **Investment strategy**

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

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

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

### **Investment powers**

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

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

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

- (a) the advisability of investing fund money in a wide variety of investments;
- (b) the suitability of particular investments and types of investments; and
- (c) the extent to which the administering authority complies with the revised six Myners principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replaces the ten Myners principles published in 2001.

### **Strategic asset allocation**

The Committee regularly reviews the Fund's investment management arrangements. The last major strategy change was implemented in 2007 although the strategic asset allocation is constantly reviewed at a high level. In broad terms, the Fund is invested 52.5% in Equities, 16.5% in Bonds, 13% in Property and 18% in Alternatives. However, of the Alternatives, around 13% are equity based (in either Long-Short or Income Yield biased products), so this equates to an effective equity allocation of over 65%. More details are given in the section below summarising the Fund's investment management arrangements. The Fund is currently in the process of undertaking a strategic review of its asset allocation.

### **Risk control**

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

### **Environmental social governance policy**

The Council seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by subscribing and outsourcing proxy voting to the Pensions & Investment Research Consultants Limited (PIRC) Corporate Governance Service for all global equities.

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

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

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

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

### **Investment management arrangements**

In September 2008, a review of the current investment arrangements was undertaken in light of current investment managers' performance. Although this did not change the strategic asset allocation the Committee agreed on the following long term investment aspirations for the Fund:

- To limit new individual mandates to allocations of no more than 12.5% of the overall Fund.
- To move the UK equity allocation downwards towards 30%, in favour of global equities as opportunities arise.
- To move the UK equity allocation to being predominantly managed passively and the global equity allocations to being predominantly actively managed, as opportunities arise.
- To increase the passive investment management in the Fund from the current 5% to a long term target of 20%, covering both equities and bonds, but this will only be implemented at times when it would be cost effective and have the least impact on returns.

Resulting from this review, on 1 July 2009 the index linked bond & gilt elements actively managed by Western Asset Management (WAM) (7% of the Fund) were moved to passive management by Legal & General, leaving WAM with an allocation of 10.5%. WAM will now be concentrating on corporate bonds, including the ability to invest overseas on a tactical basis where opportunities to add value arise.

The Committee also agreed in May 2009 to invest 2% of its bond allocation into the M&G UK Companies Financing Fund, to take advantage of an opportunity arising from the reduced liquidity in the banking market. The Fund aims to provide a relatively stable bond like return over a 5 to 10 year time frame. This will be funded from the bond allocation passively managed by Legal & General.

In line with the long term aspirations namely to more passively manage its UK equities while reducing its allocation, the committee decided to terminate the Baillie Gifford UK mandate representing 12.5% of the Fund in February 2010. The majority of this allocation (9.5%) was transferred in May 2010 to Legal & General to manage within their UK passive equities mandate with the remaining 3% passed to Edinburgh Partners as an addition to their Global Equities Fund.



In May 2011 the Committee approved to remove the 2% Strategic Allocation for active currency to 0% until further notice. This has been split between the UK passive equities (1%) and passive Gilts (0.5%) and passive UK Index-linked bonds (0.5%) pending the outcome of the current investment review.

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

<b>ASSET ALLOCATION FROM MAY 2011</b>	
<b>Equities:</b>	
Long-Only:	
UK	15.5%
Overseas (Global)	37.0%
	52.5%
<b>Bonds</b>	16.5%
<b>Property</b>	13.0%
<b>Alternatives:</b>	
Income Biased (long-only equities & bonds)	10.0%
Long-Short Equities - Global	5.0%
M&G Financing Fund	2.0%
Currency (Passive)	1.0%
	18.0%
<b>TOTAL</b>	<b>100.0%</b>

The allocation of mandates to managers from May 2011 is as follows:

<b>MANAGER/MANDATE ALLOCATION</b>	
<b>Capital International</b>	
Global Equities	14.0%
Absolute Income Grower (Equities, Bonds & Cash)	10.0%
<b>Baillie Gifford</b>	
Global Equities	12.5%
<b>Legal &amp; General</b>	
Passive UK Equities	15.5%
Passive Gilts (UK)	3.0%
Passive Index-Linked Bonds (UK)	3.0%
<b>Western Asset Management</b>	
Corporate Bonds (UK & Overseas)	10.5%
<b>ING Real Estate</b>	
Property Fund of Funds (UK & Europe)	13.0%
<b>Edinburgh Partners</b>	
Global Equities	10.5%
<b>Fauchier Partners</b>	
Equity Long-Short Fund of Funds (Global)	5.0%
<b>Record Currency Management</b>	
Passive Currency Hedge	1.0%
<b>M&amp;G Investment Management</b>	
UK Companies Financing Fund	2.0%
<b>TOTAL</b>	<b>100.0%</b>

### **Investment as at 31 March 2011**

During the year, the managers transacted purchases of £856.1 million (£814.7m 31 March 2010) and sales of £809.2 million (£771.7m 31 March 2010). The value of assets under management at 31 March 2011 was £1,276.3 million (£1,158.5m 31 March 2010), broken down by managers as follows:

Baillie Gifford	£176.2 million
Capital International	£313.1 million
ING Real Estate	£151.8 million
Western Asset Management	£140.6 million
Legal & General	£276.7 million
Edinburgh Partners	£131.5 million
Fauchier Partners	£ 65.3 million
Record Currency Management	£ 16.4 million
M&G Financing Fund	<u>£ 4.7 million</u>
	<u>£1,276.3 million</u>

The Fund participates in a securities lending programme administered by BNY Mellon. Securities in the beneficial ownership of the Fund to a value of £10.0 million (0.8% of the total) were on loan at 31 March 2011. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (0.61%) representing a value of £10.5 million (105.0%). Income earned from this programme amounted to £0.143 million in the year.

### **Investment markets**

Global markets started the year by suffering a significant set-back. There were concerns over the economic outlook, fears in respect of significant public deficits in major financial centres and tensions within the Eurozone following the emergency package to Greece. Equity markets performed strongly following the summer of 2010, particularly in response to the second round of US quantitative easing. Equity markets remained resilient despite the political tensions in Arab countries and the events in Japan.

In the UK, the new coalition government presented its first, emergency budget which outlined their austerity measures to recover the deficit and stimulate economic recovery. Gilt yields fell (prices rose) during the first half of the year as financial markets responded to the Government's debt reduction plans. Expectation of further quantitative easing in the UK also assisted to push yields to historic lows. This performance was almost entirely reversed in the final months of 2010 as attitudes changed due to rising inflation pressures. As a result of these concerns, index linked gilts outperformed fixed interest issues over the period. Corporate Bonds also produced positive returns over the year, this was a reflection of strong corporate results and the demand for higher yielding assets.

Although progress has been made and there appears to be justification for a more optimistic view of the economy, there are a number of factors remaining that may alarm the markets. In the UK the full impact of the austerity measures will become evident as the year progresses.

### **Fee structures**

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

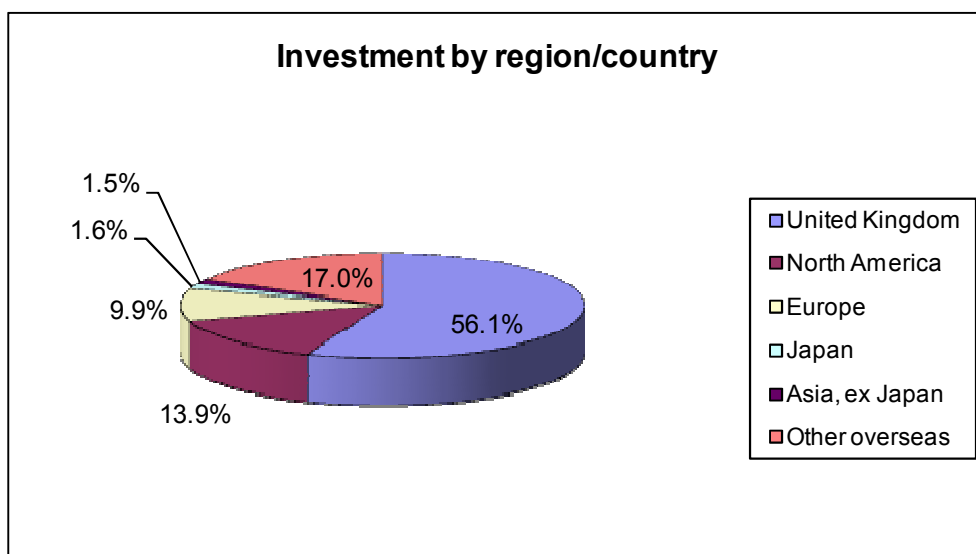
### **Other matters**

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

## Distribution of investments

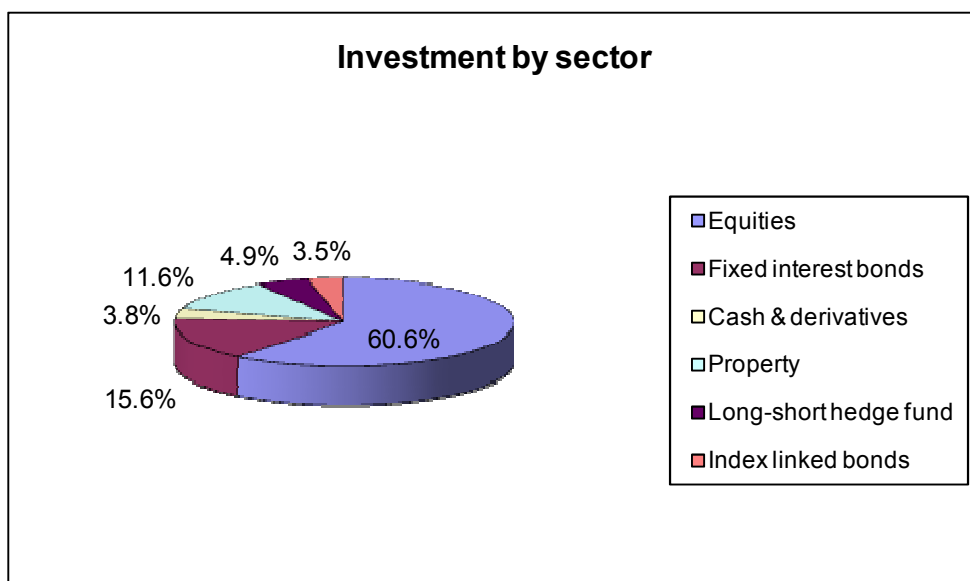
### Analysis of investments as at 31 March 2011

	£000	% of Fund total
<b>Geographical analysis</b>		
United Kingdom	716,034	56.1
North America	177,262	13.9
Europe	125,827	9.9
Japan	20,239	1.6
Asia, ex Japan	19,506	1.5
Other overseas	217,478	17.0
	<b>1,276,346</b>	<b>100.0</b>



## Analysis of investments by sector as at 31 March 2011

	£000	% of Fund total
<b>Sector analysis</b>		
Equities	774,001	60.6
Fixed interest bonds	198,687	15.6
Cash & derivatives	49,062	3.8
Property	147,637	11.6
Long-short hedge fund	62,769	4.9
Index linked bonds	44,190	3.5
	<b>1,276,346</b>	<b>100.0</b>



### **Twenty largest holdings at 31 March 2011**

	<b>£000</b>	<b>% of Fund total</b>
1 Legal & General Equity Index Fund	190,192	14.90
2 Edinburgh Partners Global Opportunities Equity Fund	131,473	10.30
3 Fauchier Partners Jubilee Absolute Equity Fund	61,604	4.83
4 Capital International Fund Emerging Markets	30,148	2.36
5 Blackrock UK Property Fund	19,257	1.51
6 Capital International UK Corporate Bond Fund	18,707	1.47
7 M&G Secured Property Income Fund	16,823	1.32
8 Baidu Inc	15,302	1.20
9 Amazon.Com Inc Com	14,301	1.12
10 Schroder Property Investment Management	12,915	1.01
11 Atlas Copco	9,369	0.73
12 First Solar Inc	8,578	0.67
13 Hercules Unit Trust	8,506	0.67
14 Treasury Gilt 4.250%	8,152	0.64
15 Vale SA ADR RepStg	8,106	0.64
16 Industrial Property Investment Fund	8,064	0.63
17 Henderson Property UK Property	8,001	0.63
18 Deere & Co	7,597	0.60
19 Google Inc	7,553	0.59
20 Apple Inc	7,460	0.58
	<hr/> <b>592,108</b> <hr/>	<hr/> <b>46.4</b> <hr/>

## 8. Actuarial position

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

### Description of Funding Policy

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

- to achieve a funding level of 100%, both at the whole Fund level and for the share attributable to individual employers, with a timescale that is prudent and affordable;
- to ensure that sufficient liquid funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the costs of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to maximise the degree of stability in the level of each employer's contributions to the extent that the Administering Authority (in consultation with the actuary) is able to do so in a prudent and justifiable way;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost effective.

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

### Funding Position as at the last formal valuation

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

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

## Principal Actuarial Assumptions and Methods used to value the liabilities

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

### Method

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

### Assumptions

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

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

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

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

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

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

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

### Experience over the year since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2011. It showed that the funding level (excluding the effect of any membership movements) remained broadly unchanged over 2010/11.

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

Prepared by:-

Linda Dudley

31 May 2011

For and on behalf of Hymans Robertson LLP

## **9. Audit opinion**

### **Independent auditor's report to the members of Wiltshire Council**

We have audited the financial statements of the local government pension fund administered by Wiltshire Council for the year ended 31 March 2011 on pages 34 to 52. The financial statements have been prepared under applicable law and the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

The Chief Financial Officer is responsible for the preparation of financial statements for the pension fund in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and which give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Chief Financial Officer; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Pension Fund Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.



**Chris Wilson**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Bristol

## 10. Statement of accounts

### Fund Account

For the year ended 31 March 2011

	<b>Notes</b>	<b>2010-11</b> £000	<b>2009-10</b> £000 <i>*Restated</i>
<b>Contributions and benefits</b>			
Contributions receivable	3	86,210	84,975
Individual transfers		9,145	7,281
		<u>95,355</u>	<u>92,256</u>
Benefits payable	4	-61,418	-61,115
Payments to and on account of leavers	5	-6,889	-9,065
Administrative expenses	6	-1,343	-1,321
		<u>-69,650</u>	<u>-71,501</u>
<b>Net additions from dealings with members</b>		<u><b>25,705</b></u>	<u><b>20,755</b></u>
<b>Returns on investments</b>			
Investment income	7	27,691	26,846
Change in market value of investments	9	70,903	276,140
Investment management expenses	10	-4,049	-2,359
		<u>94,545</u>	<u>300,627</u>
<b>Net returns on investments</b>		<u><b>94,545</b></u>	<u><b>300,627</b></u>
<b>Net increase in the fund during the year</b>		<u><b>120,250</b></u>	<u><b>321,382</b></u>
Add opening net assets of the funds restated		1,166,548	845,166
<b>Closing net assets of the scheme</b>		<u><u><b>1,286,798</b></u></u>	<u><u><b>1,166,548</b></u></u>

## Net Asset Statement At 31 March 2011

	Notes	31-Mar-11 £000	31-Mar-10 £000 <i>*Restated</i>
<b>Investment assets</b>	9		
Fixed interest securities		126,432	113,515
Index linked securities		805	767
Equities		421,908	520,041
Pooled investment vehicles		530,502	358,674
Property		147,637	114,506
Derivative assets		5,568	2,156
Cash held on deposit		43,083	54,313
Other investment balances		3,861	4,780
		<u>1,279,796</u>	<u>1,168,752</u>
<b>Investment liabilities</b>	9		
Derivatives liabilities		-3,450	-10,269
<b>Total net investments</b>		<u>1,276,346</u>	<u>1,158,483</u>
Current assets	11	12,891	9,610
Current liabilities	12	-2,439	-1,545
<b>Net assets of the scheme at 31 March</b>		<u><b>1,286,798</b></u>	<u><b>1,166,548</b></u>

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

\*This is the first year that the Code of Practice in Local Authority Accounting 2010/11 which is based around International Financial Reporting Standards has applied to the Fund's financial statements. This includes a requirement to restate the opening balances, however as there are no material differences impacting on the 2009/10 accounts a single column is shown.

### Notes

#### Forming part of the accounts

##### 1. Basis of preparation

The general principles adopted in compiling the accounts of the Wiltshire Pension Fund follow the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA). Specifically, they follow the CIPFA Code of Practice on Local Authority Accounting 2010/11 which is an IFRS based code.

This is the first year of applying IFRS based code. There are no material differences impacting on the 2009/10 accounts on transition to the IFRS-based code. IAS26 requires the actuarial present value of promised benefits to be disclosed. A separate report has been prepared by Hymans Robertson and is enclosed on page 55. The Chancellor's budget statement on 22 June 2010 declared that future pension increases should be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The report on page 55 has been prepared on the CPI basis.

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

## **2. Accounting policies**

The principal accounting policies of the Fund are as follows:

### **Contributions**

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

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

### **Benefits and refund of contributions**

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

### **Transfers to and from other schemes**

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

### **Investment income**

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

### **Valuation of investments**

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

- (i) **Quoted securities**  
Quoted Securities have been valued at 31 March 2011 by the Fund's custodian using the bid price where a quotation was available on a recognised stock exchange or unlisted securities market.
- (ii) **Unquoted securities**  
Unquoted securities have been valued according to the latest trades, professional valuation, asset values or other appropriate financial information.
- (iii) **Pooled investment vehicles**  
Pooled investments are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment manager.
- (iv) **Fixed interest stocks**  
Fixed interest stocks are valued on a clean basis. Accrued income is accounted for within investment income.
- (v) **Derivative contracts**

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

- Over the Counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year end date.
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

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

### **Foreign currency translation**

All investments held in foreign currencies are shown at market value translated into sterling using the WM 4PM rate on 31 March 2011.

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

### **Investment management expenses**

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

### **Acquisition costs of investments**

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

### **Administration expenses**

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

### **Taxation**

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

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

### **Related party transactions**

Related parties to the Wiltshire Pension Fund include all the Admitted Bodies within the Fund (see Schedule of Employer bodies on page 6), members of the Wiltshire Pension Fund Committee and the Chief Finance Officer. There have been no

financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party. All these transactions are included within the accounting statements given in the following pages.

### Additional Voluntary Contributions (AVCs)

The accounts of the Fund in accordance with regulation 5 (2) (C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include transactions in respect of AVCs. These are money purchase arrangements made by individual Fund members under the umbrella of the Local Government Pension Scheme, to enhance pension benefits. Fund members over the age of fifty may elect to buy service with their AVC funds, such transactions being included within transfers into the Fund.

### 3. Contributions receivable

	2010-11 £000	2009-10 £000
<b>Employer</b>		
- Normal	49,026	47,898
- Augmentation	3,267	7,885
- Deficit funding*	14,385	9,919
<b>Members</b>		
- Normal	19,148	18,695
- Additional contributions	384	578
	<b>86,210</b>	<b>84,975</b>

### Analysis of contributions receivable

	2010-11 £000	2009-10 £000
<i>Contributions from employees (Including Additional Contributions)</i>		
- Wiltshire Council	9,120	9,257
- Other scheduled bodies	8,441	8,329
- Admitted bodies	1,971	1,687
	<b>19,532</b>	<b>19,273</b>
<i>Contributions from employers (Including Augmentations)</i>		
- Wiltshire Council	30,492	34,403
- Other scheduled bodies	29,455	25,593
- Admitted bodies	6,731	5,706
	<b>66,678</b>	<b>65,702</b>
Total contributions receivable	<b>86,210</b>	<b>84,975</b>

\* Deficit funding contributions are being paid by the employer for the three years commencing from 1 April 2008 as specified in the Rates and Adjustment certificate dated 28 March 2008 in order to improve the Fund's funding position. The recovery period at the last valuation over which the deficit funding is recovered is mainly 20 years for scheduled bodies and 14 years or the length of the employer's contract (whichever is the shorter) for admitted bodies.

#### 4. Benefits payable

	2010-11 £000	2009-10 £000
Pensions	47,519	47,480
Commutation and lump sum retirement benefits	12,676	12,269
Lump sum death benefits	1,223	1,366
	<b>61,418</b>	<b>61,115</b>

#### Analysis of benefits payable

	2010-11 £000	2009-10 £000
<i>Pensions payable</i>		
- Wiltshire Council	26,444	26,487
- Other scheduled bodies	18,183	18,405
- Admitted bodies	2,893	2,588
	<b>47,520</b>	<b>47,480</b>

#### *Retirement and Death grants payable*

- Wiltshire Council	7,756	8,188
- Other scheduled bodies	4,597	4,502
- Admitted bodies	1,545	945
	<b>13,898</b>	<b>13,635</b>
Total benefits payable	<b>61,418</b>	<b>61,115</b>

#### 5. Payments to and on account of leavers

	2010-11 £000	2009-10 £000
Individual transfer out to other schemes	6,890	8,908
Refunds to members leaving service	18	133
State Scheme Premiums	-19	24
	<b>6,889</b>	<b>9,065</b>

#### 6. Administrative expenses

	2010-11 £000	2009-10 £000
Administration and processing	1,070	1,018
Actuarial fees	235	178
Audit fees	34	61
Legal and other professional fees	4	64
	<b>1,343</b>	<b>1,321</b>

## 7. Investment income

	2010-11 £000	2009-10 £000
<i>Quoted securities</i>		
- UK fixed interest bonds (coupon receipts)	6,538	6,068
- Overseas fixed interest bonds (coupon receipts)	240	318
- UK index linked bonds (coupon receipts)	30	35
- UK equities	2,755	6,224
- Overseas equities	7,133	6,839
<i>Pooled investment vehicles</i>		
- UK equities	1	-
- Overseas equities	2,702	1,118
- UK fixed interest corporate bonds	915	972
- Overseas fixed interest bonds	421	
- UK property	6,734	4,915
<i>Cash held on deposit</i>		
- Sterling cash	217	337
- Overseas cash	5	20
	<b>27,691</b>	<b>26,846</b>

## 8. Stock lending

The Council participates in a securities lending programme administered by BNY Mellon. Securities in the beneficial ownership of the Council to a value of £10.0 million (0.8% of the total) were on loan at 31 March 2011. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (0.61%) representing a value of £10.5 million (105.0%). Income earned from this programme amounted to £0.143 million in the year.

	2010-11 £m	2009-10 £m
WCC securities on loan	10.0	15.3
<i>(percentage of total)</i>	0.8%	1.3%
WCC collateral share of pool	0.61%	0.56%
Value of WPF pooled share	10.5	16.3
Percentage of securities on loan	105.0%	106.2%
Income earned in year	0.143	0.184



## 9. Investments

### Reconciliation of investments held at beginning and end of year

	Value at 1 April 2010	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market Value	Value at 31 March 2011
	£000	£000	£000	£000	£000
Fixed interest securities	113,515	90,069	-77,929	777	126,432
Index linked securities	767	11,642	-11,816	212	805
Equities	520,041	162,518	-294,709	34,058	421,908
Pooled funds					
- Other	358,674	189,875	-41,155	23,108	530,502
- Property	114,506	28,195	-2,447	7,383	147,637
Derivative assets					
- Futures	-145	5,349	-4,179	-319	706
- Options	1	0	0	-1	0
- Forward FX	-7,969	24,949	-21,457	5,889	1,412
	<b>1,099,390</b>	<b>512,597</b>	<b>-453,692</b>	<b>71,107</b>	<b>1,229,402</b>
Cash deposits	54,313	343,551	-354,574	-207	43,083
Other Investment balances	4,780	-1	-921	3	3,861
	<b>1,158,483</b>	<b>856,147</b>	<b>-809,187</b>	<b>70,903</b>	<b>1,276,346</b>

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

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

## Details of investments held at year end

	31 March 2011 £000	31 March 2010 £000
<b>Investment assets</b>		
<b>Fixed interest securities</b>		
- UK Fixed interest government bonds	16,471	0
- UK Fixed interest corporate bonds	108,651	101,206
- Overseas fixed interest government bonds	6	6,312
- Overseas fixed interest corporate bonds	1,304	5,997
	<b>126,432</b>	<b>113,515</b>
<b>Index linked securities</b>		
- UK index linked corporate bonds	805	767
	<b>805</b>	<b>767</b>
<b>Equities</b>		
- UK equities	46,047	179,291
- Overseas equities	375,861	340,750
	<b>421,908</b>	<b>520,041</b>
<b>Pooled investment vehicles</b>		
- UK equities	190,192	69,085
- Overseas equities	161,901	122,280
- UK fixed interest government bonds	43,140	31,753
- UK fixed interest corporate bonds	18,707	17,931
- Overseas fixed interest government bonds	6,818	7,684
- Overseas Fixed interest corporate bonds	3,590	3,261
- UK index linked government bonds	43,385	33,206
- Property	147,637	114,506
- Long-short hedge fund	62,769	59,855
- Currency fund	0	13,619
	<b>678,139</b>	<b>473,180</b>
<b>Cash held on deposit</b>		
- Sterling cash	40,500	52,628
- Overseas cash	2,583	1,685
	<b>43,083</b>	<b>54,313</b>
<b>Other investment balances</b>		
- Derivatives assets	5,568	2,156
- Outstanding dividend entitlements	3,348	4,309
- Recoverable tax	513	471
	<b>9,429</b>	<b>6,936</b>
<b>Investment liabilities</b>		
- Derivatives liabilities	-3,450	-10,269
<b>Total of investments held</b>	<b>1,276,346</b>	<b>1,158,483</b>
<b>Net current assets &amp; liabilities</b>		
Current assets	12,891	9,610
Current liabilities	-2,439	-1,545
<b>Total net current assets</b>	<b>10,452</b>	<b>8,065</b>
	<b>1,286,798</b>	<b>1,166,548</b>

## Derivative contracts

### **Objectives and policies**

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

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

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

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

**Forward foreign exchange** – In order to maintain an appropriate diversification of investments within the Fund and take advantage of overseas investment returns a proportion of the investment portfolio is invested overseas. To balance the risk of investing in foreign currencies a passive currency hedging programme, using forward foreign contracts, is in place to reduce the currency exposure of the overseas investments. Currently 50% of the overseas equity investments are hedged this way.

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

## Derivative contracts

### Future Contracts

Nature	Nominal Amount £000	Duration	Economic Exposure £000	Asset value at year end £000	Liability value at year end £000
FTSE 100 Index Future	258	Expires Jun 11	15,182	598	
<b>Fixed Income Security</b>					
UK Long Gilt	(155)	Expires Jun 11	(18,161)		(1)
US Ultra Bond	55	Expires Jun 11	4,240	125	
US 10 Year Treasury	(86)	Expires Jun 11	(6,386)		(16)
				<b>723</b>	<b>(17)</b>

### Forward cash currency contracts

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end £000	Liability value at year end £000
Forward OTC	0 to 6 months	Sterling	Australian Dollar	25	(15)
Forward OTC	0 to 6 months	Australian Dollar	Sterling	35	
Forward OTC	0 to 6 months	Canadian Dollar	Sterling		(3)
Forward OTC	0 to 6 months	Sterling	Canadian Dollar	16	(8)
Forward OTC	0 to 6 months	Danish Krone	Sterling	25	
Forward OTC	0 to 6 months	Sterling	Danish Krone		(121)
Forward OTC	0 to 6 months	Euro	Sterling	772	
Forward OTC	0 to 6 months	Sterling	Euro		(2,128)
Forward OTC	6 to 12 months	Sterling	Euro		(206)
Forward OTC	0 to 6 months	Hong Kong Dollar	Sterling	19	
Forward OTC	0 to 6 months	Sterling	Hong Kong Dollar	274	(21)
Forward OTC	0 to 6 months	Japanese Yen	Sterling	60	
Forward OTC	0 to 6 months	Sterling	Japanese Yen	723	(8)
Forward OTC	6 to 12 months	Sterling	Japanese Yen		(64)
Forward OTC	0 to 6 months	Norwegian Krone	Sterling	70	
Forward OTC	0 to 6 months	Sterling	Norwegian Krone		(69)
Forward OTC	0 to 6 months	Singapore Dollar	Sterling	9	
Forward OTC	0 to 6 months	Sterling	Singapore Dollar	27	(10)
Forward OTC	0 to 6 months	Swedish Krona	Sterling	42	
Forward OTC	0 to 6 months	Sterling	Swedish Krona		(393)
Forward OTC	0 to 6 months	Swiss Franc	Sterling	76	
Forward OTC	0 to 6 months	Sterling	Swiss Franc	119	(78)
Forward OTC	0 to 6 months	US Dollar	Sterling	187	
Forward OTC	0 to 6 months	Sterling	US Dollar	2,366	(257)
Forward OTC	6 to 12 months	Sterling	US Dollar		(52)
				<b>4,845</b>	<b>(3,433)</b>
				<b>5,568</b>	<b>(3,450)</b>

## **Financial Risk Disclosure**

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

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

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

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

### **a) Market Risk**

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

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

#### **1) Market Price Risk**

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

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

#### **Market Price - Sensitivity Analysis**

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

Movements in market prices would have increased or decreased the net assets valued at 31 March 2011 by the amounts shown below.

<b>As at 31 March 2011</b>	<b>Value £'000</b>	<b>Volatility of return</b>	<b>Increase £000</b>	<b>Decrease £000</b>
Baillie Gifford - Global Equity	176,192	21.10%	37,177	(37,177)
Capital International - Global Equity	185,433	21.10%	39,126	(39,126)
Capital International - Absolute Income Grower	127,630	9.50%	12,125	(12,125)
ING Real Estate - Property	151,780	14.20%	21,553	(21,553)
Western Asset Management - Corporate Bonds	140,606	10.00%	14,061	(14,061)
Legal & General - Equity	190,192	18.10%	34,425	(34,425)
Legal & General - Gilts	86,525	6.50%	5,624	(5,624)
Edinburgh Partners - Global Equity	131,472	21.10%	27,741	(27,741)
Fauchier Partners - Long/Short Hedge Funds	65,358	10.20%	6,667	(6,667)
Record Currency Management	16,446	0.00%	0	0
M&G - Financing Fund	4,712	0.00%	0	0
	<u>1,276,346</u>		<u>198,499</u>	<u>(198,499)</u>

## 2) Interest Rate Risk

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

The Fund's exposure to interest rate movements from its investments in cash & cash equivalents, fixed interest and loans at 31 March 2011 is provided below.

	<b>31.03.11 £000</b>
Cash held on deposit	43,083
Fixed Interest Securities	126,432
Loans	4,682
	<u>174,197</u>

## Interest Rate – Sensitivity Analysis

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

As at 31 March 2011	Value	Change in net assets	
	£000	£000	£000
		+100 BP	-100 BP
Cash held on deposit	43,083	431	-431
Fixed Interest Securities	126,432	-9,520	9,520
Loans	4,682	0	0
	<b>174,197</b>	<b>-9,089</b>	<b>9,089</b>

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

### 3) Currency Risk

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

Currently Wiltshire Pension Fund has a 50% passive hedging arrangement in place. This restricts the losses/gains to half of what they would have been on overseas investment returns. This reduces the volatility of returns over the long term.

The table below shows approximate exposures to each of the three major foreign currencies based on manager benchmarks and target allocations. This is based on the three global equity managers Baillie Gifford, Capital International, Edinburgh Partners and the Capital International (AIG) product.

	US Dollar	Euro	Yen
Benchmark Weights	19.80%	6.60%	3.20%
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net Currency Exposure</b>	<b>242,506</b>	<b>84,239</b>	<b>40,843</b>

### Currency Risk – Sensitivity Analysis

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

A 10% strengthening or weakening of Sterling against the various currencies at 31 March 2011 would have increased or decreased the net assets by the amount shown below.

	Assets Held	Change in net assets	
	at Fair Value	+10%	-10%
	£'000	£'000	£'000
US Dollar	242,506	25,700	-25,700
Euro	84,239	8,600	-8,600
Yen	40,843	4,200	-4,200
Net Currency Exposure	<b>367,588</b>	<b>38,500</b>	<b>-38,500</b>

As the Fund has a 50% hedging arrangement in place only 50% of the gains/losses would be experienced. One important point to note is that currency movements are not

independent of each other. If sterling strengthened generally it may rise against all the above currencies producing losses across all the currencies.

## **b) Credit Risk**

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

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

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

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

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

The Fund's exposure to credit risk at 31 March 2011 is the carrying amount of the financial assets.

	<b>£'000</b>
Fixed interest securities	126,432
Index linked securities	805
Derivative assets	2,118
Cash held on deposit	43,083
Other investment balances	3,861
Current assets	12,891
	<u><b>189,190</b></u>

## **c) Liquidity Risk**

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



The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	<b>Carrying Amount £'000</b>	<b>Less than 12 months £'000</b>	<b>Greater than 12 months £'000</b>
Accounts Payable	494	494	0
Benefits Payable	677	677	0
Sundry Creditors	1,268	1,268	0
	2,439	2,439	0

Vested benefits are categorised as due within 12 months because any individual benefit could become due in that time. In reality these benefits will become due over the life time of the members.

### **Fair Value Hierarchy**

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

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the Fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability used to measure fair value that rely on the Funds own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

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

	£000	£000	£000	£000
	Level 1	Level 2	Level 3	Total
Fixed Interest Securities	6	126,426		126,432
Index Linked Securities		805		805
Equities	414,718		7,190	421,908
Pooled Funds:				0
- Other	30,428		500,074	530,502
- Property	9,421		138,216	147,637
Derivative assets				0
- Futures	706			706
- Options				0
- Forward FX	1,412			1,412
	<b>456,691</b>	<b>127,231</b>	<b>645,480</b>	<b>1,229,402</b>
Cash Deposits	5,652	12,818	24,613	43,083
Other Investment balances	3,861			3,861
	<b>466,204</b>	<b>140,049</b>	<b>670,093</b>	<b>1,276,346</b>

During 2010/11 there were no transfers between level 1 and 2 of the fair value hierarchy.

The following table presents the movement in level 3 instruments for the year end 31 March 2011.

	£000
Opening balance	465,400
Total gains/losses	27,009
Purchases	395,652
Sales	-217,968
Transfer out of Level 3	0
Closing balance	<b>670,093</b>

## 10. Investment management expenses

	2010-11 £000	2009-10 £000
Administration, management and custody	3,333	1,831
Transaction Costs	677	491
Performance measurement services	39	37
	<b>4,049</b>	<b>2,359</b>

## 11. Current assets

	31 March 2011 £000	31 March 2010 £000
Contributions due from other authorities and bodies		
- Employees	1,515	1,428
- Employers	4,155	3,815
Income due from external managers and custodians	144	164
Other	462	872
Cash balances	6,615	3,331
	<b>12,891</b>	<b>9,610</b>

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

## 12. Current liabilities

	31 March 2011 £000	31 March 2010 £000
Managers / custody fees	698	728
HMRC	541	2
Other	1,200	815
	<u>2,439</u>	<u>1,545</u>

## 13. Additional Voluntary Contributions (AVCs)

Fund members paid contributions totalling £0.196 million (£0.130 million in 2009/10) into their AVC funds during the year. At the year end, the value of funds invested on behalf of Fund members totalled £2.865 million (£2.847 million in 2009/10), made up as follows:

	£ Million
<b>Equitable Life Assurance Society</b>	
- With Profits Fund	1.078
- Unit Linked Managed Fund	0.285
- Building Society Fund	0.056
<b>Clerical Medical Funds</b>	
- With Profits Fund	0.136
- Unit Linked Managed Fund	0.890
<b>NPI Fund</b>	
- Managed Fund	0.025
- With Profits Fund	0.213
- Global Care Unit Linked Fund	0.056
- Cash Deposit Fund	0.034
<b>Prudential</b>	
- With Profits Cash Accumulation Fund	0.024
- Deposit Fund	0.031
- Diversified Growth Fund	0.004
- Long Term Growth Fund	0.021
- Pre-Retirement Fund	0.008
- Property Fund	0.004
	<u>2.865</u>

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

## 14. Employer related assets

There are no employer related assets within the Fund.

## 15. Guaranteed minimum pension

The Fund is liaising with the Department for Work & Pensions to obtain details of Guaranteed Minimum Pensions (GMP) that are not currently shown on member's records.

GMP elements of member's LGPS pension are not increased by the Fund for Pre 1988 GMP but for Post 1988 GMP's it is increased by a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP and for Post 1988 GMP it is only increased if CPI is above 3%.

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

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

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

## **16. Subsequent Event**

On 8<sup>th</sup> April 2011 Wiltshire Pension Fund received confirmation from the Government Actuary's Department that they agreed to make a payment to the Fund to cover the liabilities in respect of the Magistrates Courts. In the past active members employed by the Magistrates Courts were transferred out of the LGPS but pensioners/deferred members remained in. The payment would in 10 instalments over the next 10 years. The first payment of £965,000 was received on 15<sup>th</sup> April 2011.

## 11. IAS26 statement

### Actuarial Statement in respect of IAS26 as at 31.03.2011

#### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2010/11 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010/11.

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

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

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

In order for the Administering Authority to comply, I have provided the information required below.

#### Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the Code of Practice. These can be found at the end of this report.

<b>Balance sheet Year ended</b>	<b>31 Mar 2011</b>	<b>31 Mar 2010</b>
	<b>£m</b>	<b>£m</b>
Present Value of Promised Retirement Benefits	1,733	2,006

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2011 comprises £748m in respect of employee members, £314m in respect of deferred pensioners and £671m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied that aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

## Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2011 % p.a.	31 Mar 2010 % p.a.
Inflation/Pension Increase Rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Discount Rate	5.5%	5.5%

*\*Salary increases are 1% p.a. nominal for the year to 31 March 2011 and the year to 31 March 2012 reverting to 5.1% thereafter.*

## Mortality

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

### Males Females

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

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

## Historic mortality

Life expectancies for the below year ends are based on the PFA92 and PMA92 tables. The allowance for future life expectancies are shown in the table below.

Year ended	Prospective Pensioners	Pensioners
31 March 2010 year of birth	year of birth medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007

## Commutation

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

Peter Summers FFA  
31 May 2011

## **12. Further information & contacts**

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

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

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

### **Employers' guide**

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

### **Starter packs**

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

### **Retirement packs**

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

### **Newsletters**

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

### **Annual benefit statements**

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

### **Other information**

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

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

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