

Pensions and Investment Committee

Meeting Venue

Meeting date
Friday, 9 July 2021

Meeting time
10.00 am

For further information please contact
Carol Johnson
01597 826206
carol.johnson@powys.gov.uk



County Hall
Llandrindod Wells
Powys
LD1 5LG

2 July 2021

Mae croeso i chi siarad yn Gymraeg neu yn Saesneg yn y cyfarfod.
Rhowch wybod pa iaith rydych am ei defnyddio erbyn hanner dydd, ddau ddiwrnod gwaith cyn y cyfarfod.
You are welcome to speak Welsh or English in the meeting.
Please inform us of which language you wish to use by noon, two working days before the meeting.

AGENDA

1.	APOLOGIES
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To receive apologies for absence.

2.	DECLARATIONS OF INTEREST
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To receive any declarations of interest from Members relating to items to be considered on the Agenda.

3.	MINUTES
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To authorise the Chair to sign the minutes of the meetings held on 13 March 2021 and 16 June 2021 as correct records.

(Pages 5 - 14)

4.	GOVERNANCE AND ADMINISTRATION UPDATE
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To note the report.

(Pages 15 - 30)

5.	WALES PENSION PARTNERSHIP [WPP] UPDATE
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To note the contents of the report and approve the 2021-24 WPP Business Plan.
(Pages 31 - 52)

6.	RESPONSIBLE INVESTMENT
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To receive a verbal report.

7.	FUNDING STRATEGY STATEMENT
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To consider the draft Strategy.
(Pages 53 - 78)

8.	EXEMPT ITEM
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The Monitoring Officer has determined that category 3 of the Access to Information Procedure Rules applies to the following items. His view on the public interest test (having taken account of the provisions of Rule 14.8 of the Council's Access to Information Rules) was that to make this information public would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information). These factors in his view outweigh the public interest in disclosing this information.

Members are asked to consider these factors when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

9.	PERFORMANCE REPORTS
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To consider the reports from Aon.
(Pages 79 - 156)

10.	STRATEGY REVIEW
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To consider the report from Aon.
(Pages 157 - 160)

11.	RESPONSIBLE INVESTMENT
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To consider the report from Aon.
(Pages 161 - 168)

12.	FORWARD LOOKING BUSINESS PLAN
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To consider the report from Aon.
(Pages 169 - 170)

13.	EMPLOYER RISK ASSESSMENT
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To consider the report from Aon.
(Pages 171 - 182)

14.	EMPLOYER POLICY
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To consider the draft policy.
(Pages 183 - 200)

15.	DRAFT PENSION FUND ANNUAL REPORT 2020/21
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To note the draft report.
(Pages 201 - 272)

16.	ALLOWANCES
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To consider the report.
(To Follow)

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MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE HELD BY TEAMS ON FRIDAY, 12 MARCH 2021

PRESENT

County Councillor P E Lewis (Chair)

County Councillors E A Jones, JG Morris, D H Williams and A W Davies

Mr G Moore, Chair Powys Pension Board

Mr M Weale, co-opted member

In attendance: Head of Finance, Pension Fund Manager and Financial Reporting & Policy Accountant

Aon representatives – Richard Antrobus, Simon Mayne and Jennifer O'Neill

1.	APOLOGIES
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Apologies for absence were received from County Councillor T J Van-Rees.

2.	DECLARATIONS OF INTEREST
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Members of the Committee declared interests as members of the Local Government Pensions Scheme. These are personal interests, not prejudicial interests in accordance with Paragraph 12(b) (iv) of the Members Code of Conduct 2016.

3.	MINUTES
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The Chair was authorised to sign the minutes of the Pensions and Investment Committee meeting held on 11 December 2020 as a correct record.

As the Pension Board Chair was experiencing technical difficulties accessing the meeting, the Chair moved to the Administration and Governance item next.

4.	ADMINISTRATION AND GOVERNANCE UPDATE
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The Committee received the Governance and Administration update report, which had been circulated prior to the meeting.

The Pension Fund Manager highlighted that HM Treasury [HMT] had published the Exit Payment Cap Directions 2021 [the Directions], which disapply the regulations relating to exit caps with immediate effect from 12 February 2021, due to the conflict with existing LGPS regulations. The Committee noted the Scheme Advisory Board's [SAB] Good Governance Project Phase 3 report had been published. The Pension Fund Manager advised that an Employer Policy was being developed to support the new employer exit flexibilities and this would be considered by the Pensions Board and Committee in due course.

Mr Gerard Moore, Pension Board Chair joined the meeting.

The Pension Fund Manager advised the Committee that the McCloud judgment would have an impact on the workload of the Pension Administration Team. A report on the resources required by the Team to meet this and the increasing complexities of the Funds administration would be brought to Committee for

consideration. The Section 151 Officer advised that rather than calling a special meeting to consider this issue the Committee could consider agreeing to delegate consideration and approval of any actions to the Chair, Vice Chair and Section 151 Officer.

The Pension Board Chair advised that the Board had recognised the urgency of the issue and supported the Committee in its timely action.

It was moved and duly seconded that consideration of the report regarding the extra resources required for the Pension Administration Team and approval of any actions be delegated to the Chair, Vice Chair and Section 151 Officer.

RESOLVED	Reason for decision
That consideration of the report regarding the extra resources required for the Pension Administration Team and approval of any actions be delegated to the Chair, Vice Chair and Section 151 Officer.	To ensure the Pension Administration Team is appropriately resourced to undertake the work required as a result of the McCloud judgement and address the increasing complexities in the Funds administration.

The Committee noted that there were no new breaches. The Pension Fund Manager however advised that he was reviewing whether a recordable breach should be added as a result of the clash of the regulations relating to the £95k cap and the entitlement to benefits, which had been considered at the recent Board meeting. The Committee noted that the Board had reviewed the Risk Register, which would be amended to take into account the Board's recommendations.

RESOLVED that	Reason for decision
the update report be noted.	To ensure that the Fund continues to focus on high standards of administration and governance.

5. PENSIONS BOARD MINUTES

The Committee noted the summary from the Powys Pension Board Chair of the Board meeting held on 5 March 2021. The Pension Board Chair highlighted the following recommendation:

1.1 Regarding the awaited statutory guidance from MHCLG on Good Governance, the Board feels it can add value to the relevant discussions to be undertaken locally. In view of the recent comments of the Chair of the LGPS Scheme Advisory Board (SAB) that the Local Pension Board should be the sign off on governance, the Board respectfully requests that it be found an appropriate role to assist the Administering Authority in its planning to comply with the statutory guidance, when published. A link to a recent 30 minute webinar on Good Governance, featuring the SAB Chair, will be circulated to Committee Members.

It was noted that the Board had gained a number of assurances. The Chair highlighted the Board's concerns regarding the vacancies for scheme and employer representatives on the Board, due to the change agreed in the membership and the continuing vacancy on the Committee of a scheme member observer. He advised that the Board would undertake a self-assessment and consider this at its meeting in June.

RESOLVED that	Reason for decision
the recommendation from the Powys Pension Board meeting on 5 March 2021 be noted and that it be actioned as appropriate.	To ensure good governance.

6. WALES PENSION PARTNERSHIP [WPP] UPDATE

The Committee received the WPP report. The Pension Fund Manager advised that officers were producing a person specification and developing a selection process to enable a co-opted (non-voting) pension board scheme member representative to be on the Joint Governance Committee [JGC]. The Committee noted that training events provided by the WPP are open to Committee, Board members and officers. The Pension Fund Manager advised that he was a member of the WPP's Responsible Investment sub-group.

RESOLVED	Reason for decision
That the report be noted.	As per the report.

7. AUTHORISED SIGNATORIES REPORT

The Committee received the report on authorised signatories.

It was moved and duly seconded to approve the authorised signatory list.

RESOLVED	Reason for decision
That the authorised signature list be approved.	To facilitate internal fund processes.

8. PENSIONS AND INVESTMENT COMMITTEE TRAINING NEEDS ANALYSIS

The Committee received the Powys Pension Fund's policy in relation to the knowledge and skills requirements of members of the Pensions & Investment Committee and Board. The Training Needs Analysis would be emailed to Committee members for them to complete and return to the Pension Fund Manager.

RESOLVED	Reason for decision
That the Committee complete an up to date training needs analysis form in order to assess training requirements.	As per the report.

9.	RESPONSIBLE INVESTMENT DISCUSSION AND POLICY REVIEW
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The Pension Fund Manager referred the Committee to a recent BBC article regarding the fossil fuels and carbonisation and the investments held by pension funds. It was noted the Council had agreed a climate emergency at a meeting in late 2020 and that the Portfolio Holder for climate change had issued a press release on how the Council was addressing this issue, but that this had not referred to the actions taken by the Pensions & Investment Committee. The Pension Fund Manager advised he had liaised with the Climate Officer. The Committee noted that the WPP has produced a climate change policy and it would be important for this to be acknowledged in the Fund's local policy.

In response to a comment regarding the level of Fund invested in fossil fuels the Pension Fund Manager advised that the figures quoted in the BBC article were potentially inaccurate and that the data used for the article was being checked.

RESOLVED	Reason for decision
That the Committee note the report.	As per report.

10.	EXEMPT ITEM
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RESOLVED to exclude the public for the following items of business on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).

11.	RESPONSIBLE INVESTMENT
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The Chair welcomed Jennifer O'Neill and Richard Antrobus, Aon to the meeting. The Committee considered a report from Aon regarding the carbon emissions associated with the equity and corporate bond fund managers, which established an initial benchmark as at 2 March 2021. In response to a question Aon advised that the global carbon index is simply a factor of the size of a company in the global equity market, their sales and the inputs and outputs of a company.

The Committee noted The UK Stewardship Code 2020. The Pension Fund Manager advised that the direction of travel for funds to be encouraged to sign up to the Code. The Fund had not previously signed up to earlier versions of the Code due to its complexities and the resource implications.

The Pension Fund Manager suggested that a training session could be held for the Committee to consider the issue of carbon emissions associated with investments, responsible investment and the UK Stewardship Code 2020.

RESOLVED that	Reason for decision
training sessions be held for the Committee to consider the issue of carbon emissions associated with investments, responsible	To provide an opportunity for in depth discussion.

investment and the UK Stewardship Code 2020.	
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The Chair moved to the Investment Strategy Statement item next.

12. INVESTMENT STRATEGY STATEMENT
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The Committee received the updated Investment Statement Strategy [ISS]. Richard Antrobus, Aon advised that in addition to minor amendments, the following had been added to the Statement:

- in respect of Socially Responsible Investment reference was made to how the Council monitors the impact investments have on carbon emissions and how the Fund considers alternative social, environmental and ethical investments which can produce at least comparable returns,
- that through the voting policy the Fund would ensure that companies in which it invests adopt sound principles of corporate responsibility, particularly in relation to environmental and employment standards and
- a more detailed explanation of what membership of the Local Authority Pension Fund Forum (LAPFF) means for the Fund.

It was moved and duly seconded to approve and publish the revised ISS and that it be updated, as appropriate after the Committee has undertaken the training on carbon emissions, responsible investment and the UK Stewardship Code 2020.

RESOLVED	Reason for decision
i. That the revised Investment Strategy Statement [ISS] be approved and published and ii. That it be updated, as appropriate, after the Committee has undertaken the training on carbon emissions, responsible investment and the UK Stewardship Code 2020.	To ensure that the ISS is up to date.

The Pension Fund Manager advised that the updated version would be circulated and published on the Fund's website.

The Chair took the Global Equities item next.

13. GLOBAL EQUITIES

The Committee received a report on the Global Equities. The Pension Fund Manager advised that an alternative version of the Global Alpha sub-fund (the Paris-Aligned Global Alpha fund - with lower carbon exposure) is available. The Committee noted that existing investors into the current Global Alpha sub-fund had already approved the move into this new version of the fund.

It was moved and duly seconded to move from the Global Alpha sub-fund into the Paris-Aligned Global Alpha fund.

RESOLVED	Reason for decision
That the transition from the existing Global Alpha sub-fund into the Paris-Aligned Global Alpha Fund be approved.	<ul style="list-style-type: none"> i. Committee have previously approved the investment into the Global Alpha fund and this is a lower carbon version of that (through the exclusion of companies who do not pass the carbon screening process). ii. A commitment to having a Weighted Average Carbon Intensity lower than that of the highly ambitious MSCI ACWI Paris-Aligned index iii. It will reduce the carbon exposure of the Powys Pension Fund investments iv. Fees and performance objectives remain the same with a similar risk profile. v. All investors have to agree to the transition, so that the sub-fund can be made available at the WPP.

14. HEDGE FUNDS

The Chair welcomed Simon Mayne, Aon to the meeting. The Committee considered the Hedge Fund report. Simon Mayne referred the Committee to the previous discussions regarding the Hedge Fund Portfolio, following the downgrading of a few managers over time and whether the Committee continues a hedge fund strategy in its overall strategy.

Aon recommended the Committee adopts Aon's fund solution [delegated] approach which would enable Aon to change managers without the need to seek Committee approval for individual changes. This would ensure that funds could be invested more quickly with buy-rated managers. The Committee noted that Aon is not the only provider of such a service. Aon advised that if this approach was not adopted Aon would continue to provide advice to enable the Committee to appoint new buy-rated managers.

The Pension Fund Manager advised that the WPP does not yet have a sub-fund which provides the same investment opportunities as the hedge fund strategy. However, if it introduced a sub-fund which meets the Committee's needs, the latter could consider investing in this.

In response to a question Aon advised that it does have a conflict of interest protocol and it has not researched what other options are available in the market.

RESOLVED	Reason for decision
That the Aon delegated approach is accepted and a presentation is	To consider the hedge fund options and implement

made to the Committee on Aon's fund solution [delegated] approach.	investments in accordance with the investment strategy.
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15. EQUITY RISK PROTECTION

The Committee received a report on Equity Risk Protection from Simon Mayne, Aon.

The Committee noted that two tranches of equity protection expire in March 2021 and a third expires in January 2023. Aon advised that the two tranches which expire in March 2021 should roll through to April 2022 and the 3rd tranche is re-striking to January 2023 to take into account the current equity market level. Aon recommended that protection should remain at 50% of the fund's strategic equity allocation.

The Committee was reminded of the rationale for the equity protection. The Pension Fund Manager advised that one of the reasons that the protection had been put in place was to protect the funding level for employers at the tri-annual valuation and the next valuation was due in 2022. The protection should be seen as an assurance policy to protect against downturns in the market. In response to questions Aon advised that the protection was a means to smooth out the returns and that after the next tri-annual valuation continuing the protections could be reviewed again. Aon indicated that the market gains seen over the last year would be more difficult to achieve and downside risks remain.

It was moved and duly seconded to agree in principle that the two tranches of equity protection which expire in March 2021 should roll through to April 2022 and the 3rd tranche is re-striking to January 2023 and that it be delegated to the Chair and Vice Chair in consultation with the Section 151 Officer to finalise, when the pricing details have been received and after this information is circulated to the Committee for comment.

RESOLVED	Reason for decision
<p>i. that the two tranches of equity protection which expire in March 2021 should roll through to April 2022 and the 3rd tranche is re-striking to January 2023 be agreed in principle and</p> <p>ii. that it be delegated to the Chair and Vice Chair in consultation with the Section 151 Officer to finalise, when the pricing details have been received and after this information is circulated to the Committee for comment.</p>	<p>To ensure that continuing appropriate equity risk management structure is in place.</p>

16.	CEM BENCHMARKING REPORT
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The Committee received the CEM Benchmarking report. The Pension Fund Manager asked that any questions should be forwarded to him.

RESOLVED	Reason for decision
That the report be noted.	As per the report.

17.	QUARTERLY MONITORING REPORT
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The Committee received the Quarterly Monitoring report to December 2020.

In response to questions Aon advised that the total asset value as of 28 February was £744k compared to £745K as of 31 December, 2020.

County Councillor P E Lewis (Chair)

**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE
HELD BY TEAMS ON WEDNESDAY, 16 JUNE 2021**

PRESENT

County Councillor P E Lewis (Chair)

County Councillors JG Morris, T J Van-Rees, D H Williams and A W Davies

1.	APOLOGIES
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Apologies for absence were received from County Councillors E A Jones.

2.	ELECTION OF CHAIR
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Resolved that County Councillor P Lewis be elected Chair for the ensuing year.

3.	ELECTION OF VICE CHAIR
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Resolved that County Councillor A. Jones be elected Vice Chair for the ensuing year.

County Councillor P E Lewis (Chair)

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CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
9th July 2021****REPORT BY: Head of Finance****SUBJECT: Governance and Administration Update**

REPORT FOR: Information

1 Introduction

- 1.1 This report has been produced to provide Committee with an update on the LGPS governance and administration matters and the potential impact of these on the Powys Pension Fund.
- 1.2 It is provided in addition to and supplements, where appropriate, the executive summary presented by the Powys Pension Board Chair and will provide updates on:
- Scheme Advisory Board (SAB) and the Local Government Association (LGA)
 - The Pension Regulator (TPR)
 - Update on the Fund's risk register
 - Updates on the Fund's breaches register

2. Key points for information**2.1 LGPS England & Wales Scheme Advisory Board (SAB)****Online A-Z Guide to Responsible Investment (RI) launched**

On 28 April 2021, Cllr Phillips, Chair of the SAB, announced the launch of the online [A-Z guide to Responsible Investment \(RI\)](#) at the Local Authority RI Seminar.

The [guide](#) provides a glossary of RI terms, organisations, standards and legislation indexed by its classification (what it is), category (where it fits in Environmental, Social and Governance (ESG)) and status (in the context of the LGPS legislative framework) with related LGPS specific case studies.

The SAB has prepared the guide with the assistance of the newly established Responsible Investment Advisory Group (RIAG). It will continue to be monitored and updated on a regular basis.

2020 LGPS Scheme Annual Report

On 18 May 2021, Councillor Roger Phillips, the SAB Chair, launched the 2020 LGPS England and Wales Scheme Annual Report. Highlights from the report include:

- Total membership up by 4.2% to 6.1 million members compared with 2019.
- Total assets decreased by 4.9% to £276 billion. These assets were invested in:
 - 68% pooled investment vehicles
 - 14% public equities
 - 6% bonds
 - 3% direct property
 - 9% other asset classes.
- The Local Authority return on investment over 2019/20 was -4.8%. This was reflective of the market conditions during the year and set against the UK return of -28.3%.
- The Scheme maintained a positive cash-flow position overall, including investment income.
- Over 1.8 million pensioners paid in the year.
- LGPS liabilities estimated at £291 billion on 31 March 2019. This indicates an overall funding level of 98%. The next triennial valuation of the LGPS will be as at 31 March 2022.

3. Other Updates

Written Ministerial Statement on McCloud

On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a Written Ministerial Statement on McCloud and the LGPS. The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirms that:

- the age requirement for underpin protection will be removed
- a member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
- the remedy period will end on 31 March 2022
- the underpin calculation will be based on final pay at the underpin date, even when this is after 31 March 2022
- the regulations will be retrospective to 1 April 2014
- there will be two stages to the underpin calculation:
 - the first on the underpin date – the date of leaving or on the normal pension age in the 2008 Scheme, if earlier
 - the second when the benefits are paid

3.1 **Employer Flexibilities**

The SAB published a [draft guide to employer flexibilities](#) on 22 February 2021. The SAB has published the guide for information only at this point. The SAB will finalise and publicise the guide after MHCLG publishes statutory guidance covering employer flexibilities.

The LGPS (Amendment) (No. 2) Regulations 2020 introduced increased flexibility when dealing with exiting employers, and the ability to review employer contribution rates between valuations. The purpose of the draft guide is to assist administering authorities to use these new flexibilities appropriately. The draft guide provides information, examples and options associated with the flexibilities. It also sets out:

- matters for administering authorities to consider when setting policies
- the data and information which may be needed
- the roles and responsibilities of all parties during the implementation of the flexibilities.

The Powys Fund is currently working on a new Employer Policy and revised Funding Strategy Statement, which are featured in draft form as later items on the agenda.

3.2 **McCloud**

Work is continuing in respect of the McCloud judgement. The fund has contacted Employers and provided guidance, data templates and had several discussions in respect of helping employers provide the data that the fund requires.

The impact of this is expected to be considerable with a significant number of scheme member records requiring data input and recalculations of benefits. These will include:

- Retirements
- Deferred benefits
- Aggregations
- Survivor benefits
- Refunds
- Transfers (Cash Equivalent Transfer Values, Interfund Adjustments)

Work is being finalised on the impact on resourcing within the Pensions Section and this will be available to present to Committee soon.

3.3 **The Pension Schemes Act 2021 receives Royal Assent**

On 11 February 2021, the Pension Schemes Act 2021 (the Act) received Royal Assent. The provisions within the Act will come into force when the Secretary of State makes regulations for them to do so.

The provisions of the Act that will affect the LGPS include:

Climate risk reporting. On 27 January 2021, the Government launched a consultation on draft regulations entitled [Taking action on climate risk: improving governance and reporting by occupational pension schemes](#). The regulations would require trustees of pension schemes in scope to meet the climate change governance requirements that underpin the 11 recommendations of the Taskforce on Climate-related Financial Disclosures, and to report on how they have done so. The government is also consulting on draft statutory guidance to accompany the regulations.

The regulations will not apply to the LGPS. However it is expected that MHCLG will bring forward regulations which substantially mirror the requirements as set out in the consultation document.

Pensions Dashboards. Administering authorities should take action to improve data quality to ensure that they are ready to supply the right information to the dashboards once they are live. The Fund carries out annual data quality testing in line with its [data improvement plan](#).

4. **The Pensions Regulator (TPR)**

TPR has recently published a [climate change strategy](#).

5 **Risk Register**

5.1 The latest Risk register is enclosed for Committee's review.

6 **Breaches Register**

6.1 The latest version of the breaches register is attached, for information.

No new recordable or reportable breaches have been added since the last meeting. There has been a small increase in the number of unpaid frozen refunds. Work is continuing on actively locating these members and some payments have now been made.

7 **Recommendation**

7.1 To note the contents of this report.

Recommendation:	Reason for Recommendation:
To note the update and raise any points of discussion or concerns to ensure that the Fund continues to focus on high standards of administration and governance.	As per the report

Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	Within Budget:	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Chris Hurst	01597 827640	01597 826290	churst@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Aled Davies
Relevant Local Member(s):	

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Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN001	01/11/2015		Pensions Administration	Failure to pay pensions and lump sums on time	Financial difficulty for the scheme member concerned, reputational risk to the Pension Fund, and additional cost to the employer where interest is payable as a result of late payment.	M	2	L	Low	Maintenance and update of Altair and Trent systems, sufficient staff resources and training. Quality assurance processes in place to check work done.	Pension Fund Manager	A Davies	Review of process as part of the ongoing review of pensions administration processes following the implementation of the 2014 Scheme.	M	L	Low	
	PEN002	01/11/2015		Finance	Failure to collect and account for pension contributions being paid over to the Fund on time by Fund employers.	Adverse audit opinion, potential delays to Fund employer FRS17/IAS19 reporting; and potential delay to production of annual report and accounts.	L	1	M	Low	Contributions received monitored on a monthly basis by Fund accounting staff.	Section 151 Officer	A Davies	Requirement that each end of scheme year, Fund employers certify that they have paid over contributions at the correct rates and on time.	L	M	Low	
	PEN003	01/10/2019		Finance	Insufficient Fund cashflow to meet liabilities as they fall due.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the payment of pension benefits rather than being reinvested as now.	H	3	M	Medium	Funding strategy statement. Will this year (2020) commission Fund actuary to undertake a Fund cashflow forecast based on Fund maturity	Section 151 Officer	A Davies	Following completion of the fund actuary's cashflow forecast, review strategic asset allocation to ensure that cashflow remains positive (on a targeted and monitored basis) whilst at the same time ensuring that the Fund is not forced to liquidate assets on an unplanned basis.	M	M	Medium	
	PEN004	01/11/2015		Pensions Administration	Inability to deliver service as a result of loss of pensions administration system, or any other system used in the provision of service (eg. pensioner payroll). Failure of any system used by the service as a result of a breach of cyber security.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the payment of pension benefits rather than being reinvested as now.	L	1	L	Low	Business Continuity Plan for the Pensions administration service. Assurances received from all systems providers in relation to their current resilience to the threat of a failure in cyber security.	Pension Fund Manager	A Davies	Keep Business Continuity Plan under review. Periodic review by the Pension Board of provider assurances in respect of cyber security.	L	L	Low	
	PEN005	01/11/2015		Pension Fund	Inability to deliver service as a result of the loss of key personnel	Failure to provide service at all, or at an acceptable level	L	1	M	Low	Business Continuity Plan in place for the pensions administration service	Pension Fund Manager	A Davies	Keep Business Continuity Plan under review	L	M	Low	
	PEN006	01/11/2015		Pension Fund	Loss of funds through fraud or misappropriation	Financial loss to the Fund	L	1	M	Low	Internal and External Audit regularly test that appropriate controls are in place and are working effectively. Due diligence is carried out whenever a new investment manager is appointed	Pension Fund Manager	A Davies	None	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN007	01/01/2015	FSS	Pension Fund	Significant rise in employer contribution rates for Fund employers with strong covenants, as consequence of increases in liabilities.	Employer contribution rates rise to unacceptable levels, putting upward pressure on Council Tax rates and the ability of Powys County Council to continue to deliver services to its communities.	L	1	M	Low	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	Pension Fund Manager	A Davies	Investigate further liability mitigations such as ill health strain insurance; developing guidance to assist employers to manage liability increases derived from their actions or inactions; and, work closely with the Fund actuary to determine appropriate valuation assumptions and deficit recovery strategies.	L	M	Low	
	PEN008	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for Fund employers with weak covenants as a consequence of increases in liabilities.	Employer contribution rates rise to unsustainable levels that cause employers to become insolvent	L	1	H	Medium	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	Pension Fund Manager	A Davies	In process of developing risk sharing arrangements to enable employers with weak covenants to attain a degree of certainty over the level of employer contribution rates.	L	M	Low	
	PEN009	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for employers with strong covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unacceptable levels that result in Powys County Council and other Employers being unable to provide appropriate services for its communities.	L	1	M	Low	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to	Pension Fund Manager	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
	PEN010	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for employers with weak covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unsustainable levels that result in employers with weak covenants becoming insolvent.	L	1	H	Medium	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to	Pension Fund Manager	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
	PEN011 / 034 JCAD	01/01/2015	FSS	Pension Fund	Failure to comply with LGPS and other statutory regulations.	Payment of incorrect pension benefits; provision of incorrect benefit estimates; failure to comply with governance standards; failure to meet HMRC tax requirements. Resulting in: loss of customer satisfaction / confidence; IDRP and Ombudsman appeals; TPR fines for non-compliance. Reputational Risk	H	3	L	Medium	Rigorous checking and authorisation procedures in respect of pension benefit calculations and payments; and, regular review of governance compliance policy. Staff training and development.	Pension Fund Manager	A Davies	Closer partnership working with employer payrolls to facilitate accurate data receipts; increased compliance oversight provided by Local Pensions Board.	M	L	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN012	25/01/2016		Pensions Administration	Failure to hold scheme member's personal data securely.	Poor data quality; compromised data; fines	L	1	M	Low	Compliance with Powys County Council Data Protection and ICT policies, including reference to remote/home working as appropriate.	Pension Fund Manager	A Davies	Data protection audit in conjunction with TPR data quality standards to be undertaken regularly.	L	M	Low	
	PEN013	01/04/2015	TPR	Pension Fund	Failure to maintain and hold up to date and accurate pension records.	Payment of incorrect pension benefits; late payment of benefits; assessment of incorrect liability values. Resulting in loss of customer confidence and satisfaction; IDRPs and Ombudsman appeals; and, incorrect assessment of employer contribution rates.	M	2	M	Medium	Pensions team work with employer payrolls to ensure data quality; data validation checks undertaken by team at each year end; validation checks carried out at each actuarial valuation (triennially) by the Fund actuary. Staff training and development.	Pension Fund Manager	A Davies	Additional data validation and quality checks to be implemented as required by the TPR code of practice.	L	M	Low	
Page 23	PEN014	25/01/2016	CIPFA	Pension Fund	Lack of expertise of Pension Fund Officers and Head of Service	Poor decision making in relation to principal functions of the Pension Fund, particularly in relation to investments.	L	1	H	Medium	Officers ensure that they receive appropriate training and are required to keep up to date with developments in pensions matters, as part of their periodic Individual Performance Reviews and by attending relevant conferences and seminars, by reading and through discussions with consultants and peers.	Pension Fund Manager	A Davies	Formalised Officer training via individual training plans based on the CIPFA 'Knowledge and Skills' framework, as is the the procedure for members of both Pensions & Investment Committee and the Pensions Board.	L	M	Low	
	PEN015	25/01/2016	CIPFA	Pension Fund	Over-reliance on key Officers	When senior Officers leave or are on long term sickness, large knowledge gaps remain.	M	2	H	Medium	In the short term, knowledge gaps can be filled by using our external colleagues from other Welsh Funds and buying in assistance from consultants.	Pension Fund Manager	A Davies	Formalise succession planning by including in Officer individual training plans for less senior Officers.	M	L	Low	
	PEN016	25/01/2016		Pensions Administration	Failure to communicate effectively with stakeholders.	Scheme members unaware of their rights under the LGPS and make poor decisions in relation to pension rights. Employers unaware of the scheme regulations, the procedures and their responsibilities, resulting in poor or inappropriate decision-making and may adversely effect the flow of pensions data to the Pension Fund.	L	1	M	Low	the Pensions Support Manager is tasked with responsibilities in relation to scheme and Fund communications, as part of their Job Description. In addition, the Fund has a clear communications policy as well as a regularly updated website.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN017	26/01/2016		Pensions Administration	Failure to provide the pensions service in accordance with principles of equality.	Some stakeholders may be unable to access the service fully or at all. In the worst case scenario, this could result in court action against the Fund.	M	2	M	Medium	The Fund maintains a Welsh Language register in respect of scheme members and employers.	Pension Fund Manager	A Davies	To utilise technology to enable access to service and information for stakeholders with disabilities, other language needs etc.	L	M	Low	
	PEN018	01/01/2015	FSS	Pension Fund	Failure to collect payments due from ceasing employers with no active members.	Failure to collect cessation payments from ceasing employers results in relevant liabilities being funded by the Powys Pension Fund and the active employers.	L	1	M	Low	The Fund undertakes periodic reviews of the strength of employer covenants. For existing employers, the Fund requires that a guarantor, bond or 'risk sharing agreement' is in place. For all new employers, the Fund insists on either a guarantor or a bond being in place.	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
Page 24	PEN019	25/01/2016	SAB	Pension Fund	Lack of expertise of members of Pensions & Investment Committee	Poor decision making in relation to all aspects of the Fund, particularly those in relation to investment.	M	2	H	Medium	The Fund adopts the CIPFA Knowledge and Skills Framework to inform its training plans for members of Pensions & Investment Committee (and the Pension Board).	Pension Fund Manager	A Davies	Rollout of individual training plans for all members. After each County Council election, specific training events are put on for new members elected to Pensions & Investment Committee.	L	H	Medium	
	PEN020	01/01/2015	FSS	Pension Fund	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Increased employer contribution rates.	L	1	M	Low	Only anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Also monitors and analyses progress every three years for each employer. In addition, the Fund receives quarterly funding updates to help monitor the position.	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
	PEN021	01/01/2015	FSS	Pension Fund	Inappropriate long-term investment strategy.	Failure to meet funding objectives.	L	1	H	Medium	Use of a Fund specific benchmark, as recommended by the Fund's investment consultant.	Pension Fund Manager	A Davies	Nothing further planned	L	H	Medium	
	PEN022	01/01/2015	FSS	Pension Fund	Active investment manager under-performance relative to the benchmark.	Failure to meet funding objectives.	L	1	M	Low	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.	Pension Fund Manager	A Davies	Nothing further planned	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN023	01/01/2015	FSS	Pension Fund	To permit deficits to be eliminated over a recovery period rather than immediately, introduces the risk that action to restore solvency is insufficient between successive measurements.	Increased employer deficit recovery payments.	L	1	M	Low	It is the practice to discuss every such situation with the Pension Fund actuary, for each individual employer. Moreover deficit recovery periods are generally restricted to no more than 25 years, or 40 years in very exceptional circumstances. Reviewed during triennial valuation	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
	PEN024	01/01/2015	FSS	Pension Fund	Permitting contribution rate changes to be introduced by annual steps rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements.	Increased employer contribution rates.	L	1	M	Low	Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted to three years, or 6 years, in very exceptional circumstances. Reviewed during triennial valuations.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	
Page 25	PEN025	01/01/2016	FSS	Pension Fund	Pensioners living longer and, changing retirement patterns.	Increased employer contribution rates.	L	1	M	Low	Mortality assumptions are set with some allowance for future increases in life expectancy. The Fund actuary investigates these matters at each valuation or more frequently where appropriate. If significant demographic changes were to occur between valuations, the Pension Fund will advise employers accordingly and notify them of the likely impact on their contribution rates, reviewing bond values, as required.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	
	PEN026	01/01/2016	FSS	Pension Fund	Deteriorating patterns of ill health or other early retirements.	Increase in employer contribution rates and deficit recovery payments.	L	1	M	Low	Employers are required to pay the capital costs of early retirements (pension strain), upfront for all cases. Ill health retirements and costs are monitored against Fund allowances.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN027 / PEN 035 on JCAD	01/01/2015	FSS	Pension Fund	Fall in the returns on Government bonds.	Increase to the value placed on Fund liabilities.	M	2	M	Medium	Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds. Some investment in bonds also helps to mitigate this risk. Monitoring (quarterly) helps to give an early warning of significant changes.	Pension Fund Manager	A Davies	No further action proposed.	M	M	Medium	
	PEN028	01/01/2015	FSS	Pension Fund	Pay and price inflation significantly more than anticipated.	Increased employer contribution rates and deficit recovery payments.	M	2	M	Medium	Employers 'pay' for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities. Particularly where bias towards longer serving employees may be considered.	Pension Fund Manager	A Davies	No further action proposed.	M	M	Medium	
	PEN029	26/01/2016	SAB	Pensions Administration	Failure to reconcile all relevant active, deferred and pensioner member GMP records against the data held by DWP in respect of the cessation of contracting out.	Increase in Fund liabilities; increased employer contribution rates and deficit recovery payments; and, payment of incorrect pension benefits.	M	2	M	Medium	Reconciliation Complete. Work on Rectification due to be complete by the end of 2020	Pension Fund Manager	A Davies	Appoint external partners to a) identify scale of work required; b) bank 'quick wins' - both now completed. Complete project by end of 2020.	M	L	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
Page 27	PEN030	04/03/2016	LPB	Pension Fund	Insolvency of an investment manager investing Pension Fund assets.	A reduction in the capital value of the Fund; a loss of liquidity as creditors agree on distribution of assets; the costs of legal representation; and, reputational damage.	M	2	C	High	Diversification of investment managers; adherence to the limits for individual investment mandates as set out in the LGPS investment regulations; regular meetings with investment managers undertaken by the Fund's investment consultant; Statement on Standards for Attestation Engagements No. 16 internal controls are monitored on an annual basis; due diligence by investment consultants to ensure that custodians are used by each investment manager; equity investment mandates are invested in pooled funds; and, only well respected and researched investment managers are selected in the first place. De Dilligence carried out by Wales Pension Partnership and its advisers.	Section 151 Officer	A Davies	Increased investment manager diversification may be further facilitated by pooling via the Wales Pension Partnership. As agreed by P & I Committee on 9th February 2017, when entering into new contractual arrangements with investment managers, contract documentation is to be referred to the Fund's legal advisers for review and appropriate due diligence.	L	C	Medium	
	PEN031	04/03/2016	LPB	Pension Fund	Pooling of Pension Fund assets with other LGPS Pension Funds.	Investment of Fund Officer and Committee time and other resource with unknown outcomes; front loaded costs before potential savings are realised; potential loss of local accountabilities; and, the loss of the primacy of the Fund and its strategic needs.	M	2	M	Medium	Due diligence on all pooling proposals; full transparency of all pool proposals and costs; full participation of the Pension Fund in all pooling development.	Pension Fund Manager	A Davies	Pooling vehicles to be structured so that each participating Fund has full representation in the pool; the pool structure enables full strategic decisions to be retained by each individual Fund; and, economies of scale (based on experience to date) indicate that savings will be made by the Fund that will exceed initial costs.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	P	I	Risk Rating					P	I	Risk Rating	
	PEN032	10/03/2017	LPB	Pension Fund	An admitted body ceasing to exist with insufficient funding or level of a bond available to meet all its Fund liabilities.	Unfunded pension liabilities being orphaned without sufficient funding/guarantees in place, resulting on increased liabilities falling on other Fund employers.	M	2	L	Low	To seek funding guarantees wherever possible, from other Scheme employers or outside bodies. To require, in all cases, a bond or other form of security to protect the Fund in the case of unexpected cessation and insolvency. Ensuring that admitted bodies are fully aware of their obligations and responsibilities to the Pension Fund and the benefits of their employees.	Pension Fund Manager	A Davies	Regular review of admitted body covenants and financial health.	M	L	Low	
	PEN034/036 on JCAD	01/10/2019	LPB	Pension Fund	MIFID II ongoing compliance	Financial implications of not being treated as an institutional investor	H	3	H	High	Regular Review of MIFID Status	Pension Fund Manager	A Davies		M	M	Medium	
	PEN035 / 037 on JCAD	29/03/2020	LPB	Pension Fund	Pension Fund Personnel and/or key suppliers are unable to work due to extreme weather, fire, epidemics	Inability to deliver administration services or investment of the Fund. Impact of welfare of Pensions Section Staff.	H	3	H	High	Business Continuity Plan, assesment of Pensioner Payroll services. Electronic implementation of paperwork.	Pension Fund Manager	A Davies		M	M	Medium	#REF!
	PEN036	14/09/2020	LPB	Pension Fund	Appointment of new Pension Board Chair in Summer 2021 and additional Scheme Member/Employer representative	Non compliance with Public Services Pension Act. Challenge and scrutiny of the Pesions Regulator. Reduced standards of governance	H	3	H	High	Procurement and Appointment exercises required. Work with Commercial Services Team to proceed accordingly	Pension Fund Manager	A Davies		M	M	Medium	
	PEN037	14/09/2020	LPB	Pension Fund	Cessation of Pensions Administration Software Contracts	Falure to meet legislative requirements and administer the LGPS to scheme members. Risk of intervention by the Pensions Regulator, legal challenges, reputational risk	H	3	H	High	Rigorous procurement exercises required at the appropriate time to identify most suitable software provider. Work with Commercial Services Team to identify.	Pension Fund Manager	A Davies		M	M	Medium	

Breach No	YEAR	Breach Type	Nature of Breach	Breach Description	Action	Material Significance (Y/N)	P & I Committee Notified	Pension Board Notified	TPR Notified	RAG Status
1	2018/19	Administration	Late Notification of deferred Benefits	<p>Disclosure Regulations state that any deferred leaver should be notified of their deferred benefit options within two months of the fund receiving complete leaver information from the employer. Due to the backlog of casework in the fund these deadlines have not been met for a number of historic deferred members. Cause: The backlog has occurred through the introduction of the new LGPS and the increased complexity around administration (aggregations, final salary links etc). An increase in the numbers of deferred pensioners who have left employment through reorganisations in recent months has also had an impact. Effect: although a breach, it is not considered material, as the information is not critical when making future decisions. Where a deferred member reaches retirement age their calculation will be completed at that point. This is a national issue for most funds across the LGPS.</p>	<p>New letter produced and issued to leavers upon notification of leaving, stating their entitlements upon leaving membership of the LGPS (i.e. under 2 years = refund, over 2 years = Deferred)</p>	N	N	Y	N	
2	2018/19	Administration	Automatic payment of refund after 5 years for post 2014 leavers	<p>Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. 52 members to 31.05.21</p>	<p>The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014.</p>	N	Y	Y	N	

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CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
9th July 2021****REPORT BY: Head of Finance****SUBJECT: Wales Pension Partnership Update**

REPORT FOR: Information

1 Introduction

- 1.1 This report aims to provide Committee with an update on the work undertaken on behalf of the Wales Pension Partnership (WPP), with regard to pooling investments in Wales and to seek approval of the 2021–24 WPP Business Plan (Appendix A).
- 1.2 The Business Plan describes how the WPP will aim to achieve its goals and objectives.

Areas covered within the plan are:

- Governance
- Risk Management
- Objectives
- Beliefs
- Policies
- Work Plan
- Training Plan
- Budget
- Investment & Performance

- 1.3 The last Joint Governance Committee (JGC) meeting was held virtually on the 24th of March 2021 and a link to the agenda is available here:

<https://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&MIId=4250&Ver=4>

- 1.4 The Next JGC meeting is scheduled to take place virtually on the 28th of July 2021.
- 1.5 The Pension Fund Manager and Financial Reporting & Policy Accountant continue to assist the Host Authority (Carmarthenshire County Council) and the WPP adviser, Hymans Robertson, with their respective roles, as well as representing the interests of the Powys Pension Fund on the Officer Working Group (OWG).

2 Summary of progress and ongoing work

2.1 Work has been continuing on, but not limited to, the following items:

- Business Plan;
- Policies
- Scheme Member representation on the Joint Governance Committee (JGC)
- Training Plan

2.2 Scheme Member representation on the JGC.

The JGC have received a report on Scheme Member Representation which detailed the recommended appointment process and person specification. With regards to the appointment process, the report recommended that each local Pension Board nominate one scheme member representative who would submit an expression of interest setting out their specific qualities against the person specification. The appointment process would be undertaken by a JGC sub-group that would make an appointment recommendation to the JGC for approval. Once the person specification and appointment process had been formally approved, the Inter Authority Agreement would need to be amended and the amendments would need to be approved by all eight constituent authorities.

It has been suggested that the tenure of the appointment should be two years and the appointment should include a deputy representative from a different Pension Board to the Scheme Member Representative.

2.3 **Policy Update.** The JGC have received a report on an updated Communications Policy. It was advised that the existing Communications Policy had been approved in December 2019.

2.4 Training.

The JGC have received a report on the WPP Training Plan for 2021/22. Training is primarily focused on meeting the training needs of members of the JGC and OWG, but it could be extended to Pension Committee members and Pension Board representatives as appropriate. These training events and opportunities will be circulated to Board as they become available.

3 Recommendation

3.1 To note the contents of this report and approve the 2021-24 WPP Business Plan.

Recommendation:		Reason for Recommendation:	
<ul style="list-style-type: none"> To note contents of the report and approve the updated 2021-24 Business plan. 		As per the report.	
Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	Within Budget:	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Chris Hurst	01597 827640	01597 826290	churst@powys.gov.uk
Relevant Portfolio Member(s):		Councillor Aled Davies	
Relevant Local Member(s):			

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Wales Pension Partnership Business Plan 2021-2024

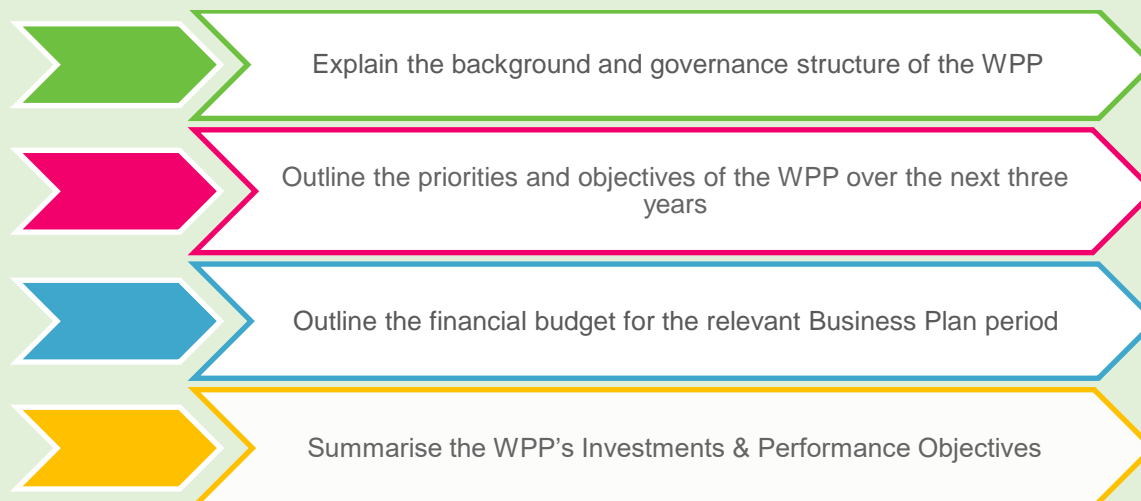


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Introduction

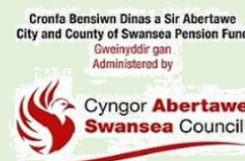
This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for 2021/22, 2022/23 and 2023/24. The business plan is constantly monitored and will be formally reviewed and agreed every year. The purpose of the business plan is to:



About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:



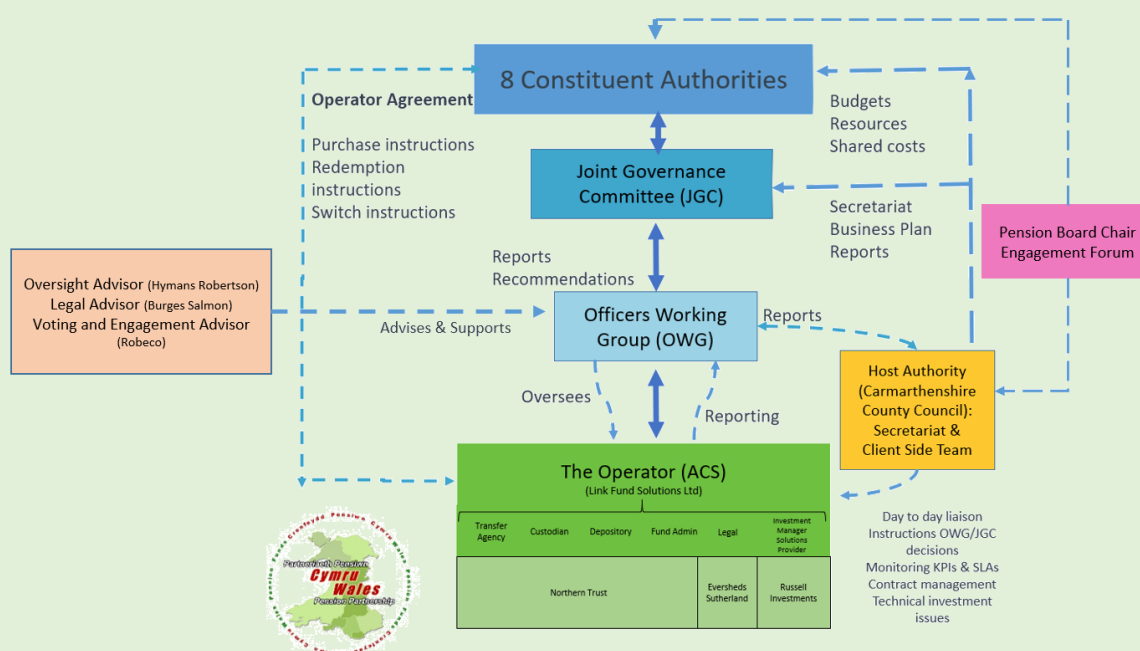
Governance

The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:



The diagram below shows WPP's governance structure:



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP's budget and workplan, as well as its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised respectively of elected councillor and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms	Frequency
Strategic Relationship Review meeting	Bi-Annual
JGC Engagement	Quarterly
Manager Performance Meetings/ Calls	Quarterly
Training Events	Quarterly
OWG Engagement	Every 2/3 Months
Bi-Weekly Meetings	Every 2 Weeks
Annual Shareholder Day	Annual
Pension Fund Committees	Annual
Manager Engagement Days	Annual
Member Communications	Annual
Pension Board Engagement	Every 6 Months
Engagement via the website & LinkedIn	Continuous
Constituent Authority Annual Requirements & Ambitions Questionnaire	Annual

Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

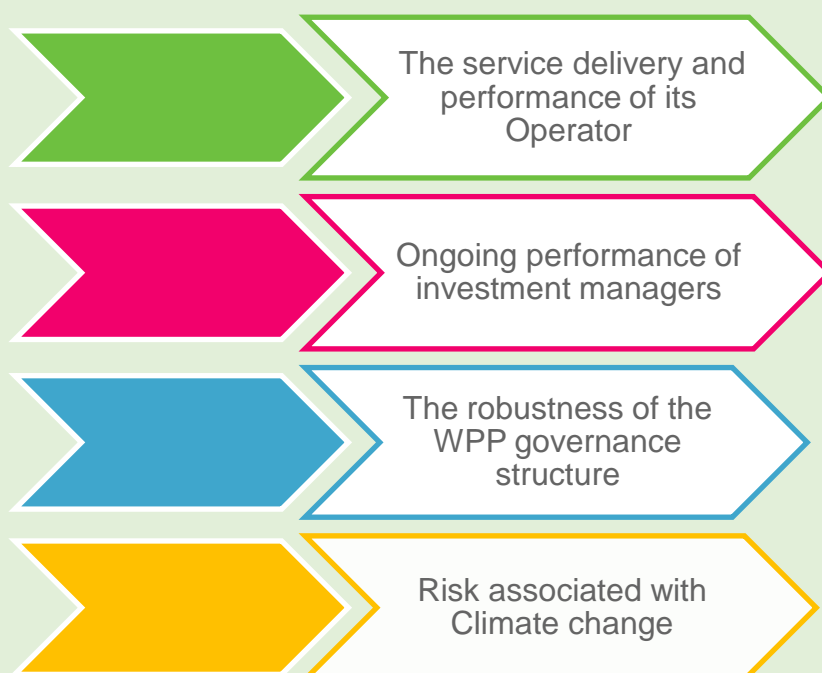
Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

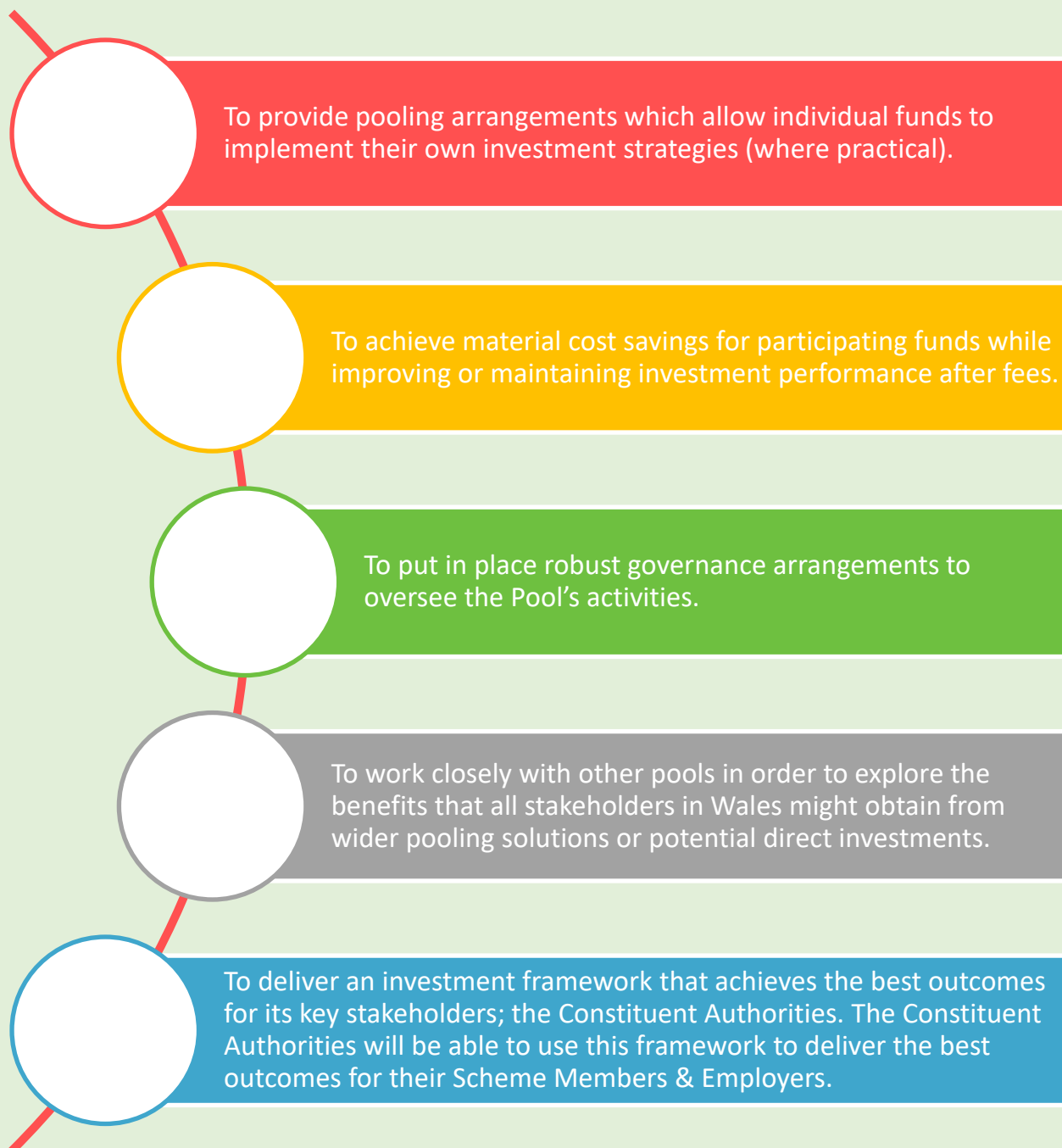
The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:



Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:



The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

Beliefs

The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented.

Good governance should lead to superior outcomes for the WPP's stakeholders.

Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders.

Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders.

Effective internal and external communication is vital to achieving the WPP's objectives.

External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise.

Fee and cost transparency will aid decision making and improve stakeholder outcomes.

Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve.

A flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

Policies

The WPP believes that good governance should lead to superior outcomes for the WPP's stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP, and the Constituent Authorities, to:



The WPP's key policies, registers and plans are listed below and can be found on the WPP website.



The WPP's policies are reviewed on at least an annual basis and the WPP will continually assess whether any additional policies, registers or plans are required. The WPP workplan includes a number of additional governance documents that will be developed, these will be made available on the WPP website once completed. The policies play a vital role in the WPP's governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

Work Plan

The tables below show the key priorities and objectives that the WPP aims to complete over the next three years.

Governance

The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework by developing additional policies, registers, plans and carrying out ongoing reviews of its existing governance documents and structure.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Appoint a Scheme Member Representative to the Joint Governance Committee	✓		
Development of a WPP Rebalancing & Alteration Policy	✓		
Formulate a Responsibilities Matrix for WPP Sub-Funds	✓		
Development of a WPP Whistleblowing Policy	✓	✓	
Development of a WPP Complaints Policy		✓	
Development of a WPP Breach and Errors Policy		✓	
Develop 'Pre-sign-off Checklist Reports' for WPP Sub Funds	✓	✓	
Development of a WPP Business Continuity Plan	✓	✓	
Review of Inter Authority Agreement	✓	✓	✓
Annual review of WPP's policies and plans	✓	✓	✓
Quarterly reviews of the Risk Register	✓	✓	✓

Ongoing Establishment

The WPP is proud of its progress to date in regard to the pooling of assets and will continue to allocate resources to ensure that all suitable assets are pooled. To date the WPP has pooled 62% of its assets and by the end of March 2022 the WPP plans to have pooled c70% of its assets.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Launch of Emerging Markets Sub-Fund	✓		
Launch of Private Debt & Infrastructure Sub-Funds	✓		
Formulate the WPP's Property requirements and optimal means of implementation	✓	✓	
Review and develop a mechanism to pool any suitable non-pooled assets		✓	✓
Launch of Private Equity Sub-Fund		✓	✓
Launch of other Private Market sub-funds (TBC)			✓
Consultation with CAs on need for further sub-funds	✓	✓	✓

Operator Services

The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers pose a material risk to the WPP. The WPP will prioritise the development of a framework that will allow it to monitor and evaluate the Operator's service delivery, this framework will be imbedded into the WPP risk monitoring mechanisms.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
WPP Operator Oversight Framework	✓		
Review of Operator's contract	✓		
Review of Operator KPI reporting	✓		
Market Review of developments within the Operator market	✓		
Setting up and implementing a framework for monitoring the performance of Russell as investment advisors to Link	✓	✓	

Communication and Training

The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and will publish numerous report and updates to ensure that it proactively communicates its progress to stakeholders. The WPP is very proud of the work it carries out on behalf of its stakeholders and will provide a summary and detailed report on its endeavours over the past 12 months in the form of the WPP Annual Update and Report. The WPP will also formulate its first WPP's Annual Responsible Investment Progress Report during the course of this year to articulate and provide detail on how the WPP is positioned from a Responsible Investment perspective and what work it has completed over the past year to further the WPP's Responsible Investment credentials.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Formulation of the WPP's Annual Responsible Investment Progress Report	✓	✓	✓
Formulation of the WPP's Annual Training Plan	✓	✓	✓
Formulation of the WPP's Annual Update	✓	✓	✓
Formulation of the WPP's Annual Report	✓	✓	✓

Investments and Reporting

The WPP focus is primarily focused on providing investment solutions that are aligned to the requirements of the Constituent Authorities. The WPP will continue to formulate innovative and optimal WPP Sub Funds for Constituent Authority use. The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities.

Responsible Investment continues to be of the utmost important to the WPP and its Constituent Authorities. During this workplan the WPP will allocate resources to ensure that it has market leading level of stewardship. The WPP wishes to demonstrate its stewardship credentials by becoming a signatory to the UK Stewardship Code this year. The WPP will continue to consult with the Constituent Authorities and is hoping that its consultation activities will allow it to put in place minimum Climate Risk and ESG standards within its WPP Sub-Funds within the next year. The WPP will also enhance its ESG and Climate Risk reporting and its oversight and reporting of investment managers.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Development of Investment Manager performance reporting, including ESG metrics and climate change risk	✓		
Finalise Voting & Engagement Reporting Requirements	✓		
Become a signatory to the UK Stewardship Code	✓		
Formulate WPP Engagement Priorities and Implementation Framework	✓	✓	
Review the compatibility of WPP Sub-Fund Benchmarks with WPP's Responsible Investment and Climate Risk Beliefs	✓	✓	
Consider additional reporting that demonstrates WPP's commitment to Responsible Investment (e.g. TCFD Reporting)		✓	✓
Annual review of WPP's Cost Transparency Requirements	✓	✓	✓
Annual market benchmarking exercise of WPP Sub-Fund Investment Performance	✓	✓	✓
Consult with Constituent Authorities regarding minimum ESG/ RI standards and their climate ambitions	✓	✓	✓

Resources, budget and fees

The WPP recognises that insufficient resources poses a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP will carry out the following pieces of work to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2021 - 2022	2022 - 2023	2023 - 2024
Annual review of resources and capacity	✓	✓	✓
Formulation of Annual WPP Budget	✓	✓	✓
Review and Monitoring of Fees (including Link & Russell)	✓	✓	✓

Training Plan

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions;
- the pooling of Local Authority Pension Schemes; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, policies, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2021/2022 financial year. The topics outlined below are based on the responses received from the 2020/21 WPP training requirements questionnaire/ assessment, which is issued to the Joint Governance Committee ('JGC') and Officers Working Group ('OWG') on an annual basis.

Product Knowledge

- o Private Market – Asset Classes & Implementation
- o Private Market - Fund Wrappers & Governance

Responsible Investment

- o Responsible Investment Indices and Solutions
- o Responsible Investment Reporting

Investment Performance and Risk Management

- o Performance Reporting & Manager Benchmarking
- o Roles & Responsibilities within the ACS

Guidance, Regulatory Requirements and Best Practice

- o Good Governance
- o Cost transparency

Market Understanding

- o Progress of other LGPS pools
- o Collaboration Opportunities

Budget

The table below outlines the WPP's budget for the next three years.

	2021-22	2022-23	2023-24
	£'000	£'000	£'000
Host Authority *	182	212	217
External Advisors *	680	680	680
TOTAL to be recharged	862	892	897
Operator Services **	28,447	34,614	37,975
TOTAL to be deducted from the NAV	28,447	34,614	37,975

**Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

***Operator Services costs are based on each Constituent Authority's percentage share of WPP assets (held with the Operator) and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets (held with the Operator).*

Investments & Performance

The WPP's Constituent Authorities have total assets of circa £17.5bn (as at 31 March 2020). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

Equity Sub-Funds



* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT and Clwyd	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Majedie, Lazard, Baillie Gifford, Ninety-One and Liontrust	Sept 19

Fixed Income Sub-Funds



* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Powys and Torfaen	Western, Logan Circle, Fidelity and T Rowe Price	July 20
Global Government	FTSE World Government Bond Index (GBP Hedged)	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	ICE BofA SONIA + 4% p.a.	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	ICE BofA SONIA + 2% p.a.	Gwynedd, Powys and Swansea	Wellington, Putnam, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

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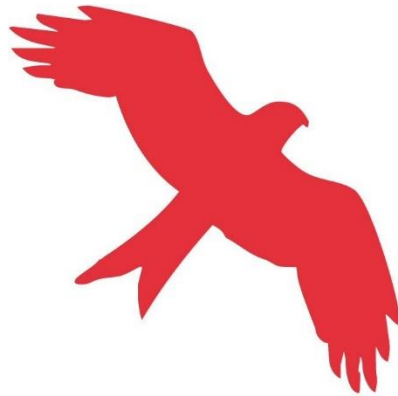
Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>



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Powys

CRONFA BENSIWN **POWYS** PENSION FUND

Funding Strategy Statement

Drafted March 2021
Approved #####

Funding Strategy Statement

1. Introduction

This is the Funding Strategy Statement (FSS) of the Powys County Council Pension Fund.

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Aon Solutions UK, and after consultation with officers, elected members, the Fund's employers and investment advisors and is effective from the date of issue of this statement. A single strategy is produced for the Pension Fund. The FSS compliments the triennial Actuarial Valuation and the Investment Strategy Statement as follows:

Actuary's Valuation Report	Funding Strategy Statement (FSS)	Investment Strategy Statement (ISS)
Defines what employer contributions should be made to meet current and future pension payments.	States how solvency and risk will be managed in relation to liabilities.	How and where the fund will be invested and managed.

1.1 Regulatory Framework

This statement, originally prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the LGPS 2013 Regulations) and the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the Investment Regulations).

As required by Regulation 58(4) of the LGPS 2013 Regulations, the Statement has been prepared having regard to guidance published by CIPFA in October 2012. The Statement also has regard to updated guidance published by CIPFA in September 2016 and the supplementary statutory guidance issued by MHCLG: Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements.

The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS.

Members' benefits and contributions are also set out in the LGPS 2013 Regulations. The members' contributions do not cover the full cost of benefits and the shortfall or liability is met by the participating employers within the fund. The FSS sets out how this liability will be funded in the long term.

1.2 Purpose of this Funding Strategy Statement

The main purpose of the FSS is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory framework to maintain as nearly constant primary contribution rates as possible;
- enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
- takes a prudent longer-term view of funding the Fund's liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The focus of the FSS is on those actions which are in the best long term interests of the Fund.

1.3 Reviews of FSS

The FSS will be reviewed in detail at least every three years in line with triennial valuations being carried out. It will be circulated to employers prior to the completion of each valuation. It will only need to be updated in between valuations if there has been material change. Small updates can be attached to the original approved.

1.4 Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

The Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement (ISS) published under Regulation 7 of the Investment Regulations and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

2. Purpose and Aims of the Fund

2.1 Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay the Scheme benefits over the long term and in doing so smooth out the contributions required from employers over the long term.

2.2 Aims of the Fund

The aims of the Fund in relation to the Funding Strategy include:

- to ensure the long-term solvency of the Fund. The Fund Solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to maximise the returns from investments within reasonable risk parameters;
- to manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirement;
- to try to maintain stability of employer contributions, and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

3. Responsibilities of Key Parties

The LGPS Regulations set out the responsibilities of the key parties and are summarised below.

3.1 The Administering Authority should:-

- administer the Fund
- collect investment income and other amounts due to the Fund including employer and employee contributions and exit payments from employers whose participation in the Fund has ceased. The administering authority will ensure all individual employers are aware that they must pay contributions in accordance with Regulations 67 to 71 of the LGPS 2013 Regulations;
- invest surplus monies in accordance with the regulations;
- pay from the Fund the relevant entitlements as set out in the LGPS 2013 Regulations
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend the FSS/ISS as necessary;
- effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.
- enable the local Pension Board to review the valuation process as set out in their terms of reference;
- ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers.

3.2 Individual Employers should:-

- deduct contributions from employees' pay correctly;
- pay both ongoing members' and employer's contributions (including percentage of pay, monetary shortfall recovery contributions and any contributions agreed under a deferred debt arrangement which are due) as determined by the Fund's actuary, promptly by the 19th day of the month. Unless an agreed arrangement is in place, late payments will incur interest of 1% above base rate.
- develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notify the administering authority promptly of all changes to membership or, as maybe proposed, which affect future funding;
- noting and if desired responding to any consultation regarding the FSS, the ISS, or other policies;
- pay any exit payments required in the event of their ceasing participation in the Fund.

3.3 The Fund Actuary should:-

- prepare valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters, on exit valuations on cessation of admission agreements or when an employer ceases to employ any active members, and in connection with bonds and other forms of security against employers default.

Such advice will take account of the funding position and FSS, as well as other relevant matters when instructed to do so.

The Fund Actuary will assist the Administering Authority:

- in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A.
- in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

4 Funding Strategy

4.1 Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the amount of risk in the funding strategy.

These three terms are considered in more detail below.

4.2 Solvency Target

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial methods and assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Some comments on the principles used to derive the Funding Target and Solvency Target for different bodies in the Fund are set out below.

Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following exit

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than risk free assets for scheduled bodies and certain other bodies. With regard to Admission Bodies the guarantor must have been judged to be of suitable covenant by the Administering Authority (see section on Guarantors in section 5).

For these bodies, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

Admission Bodies and other bodies whose liabilities are expected to be orphaned

For admission bodies the Administering Authority will have regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit from the Fund, and any likely change in notional or actual investment strategy as regards the assets held in respect of the admission body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a Guarantor exists to subsume the notional assets and liabilities). For most bodies where liabilities will become orphaned, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail in paragraph 5.5.

Orphan Liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail later in this document.

Deferred Employers

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement ends. For most such bodies, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail in paragraph 5.5.

If the liabilities of a particular admission body or deferred employer subject to the low risk solvency target are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

4.3 Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on modelling carried out by the Fund Actuary.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. At the 2019 valuation, the Probability of Funding Success was set to be 77%.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

The Trajectory Period is set to be 25 years.

4.4 Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions using the valuation data. The valuation calculations, including the future service contributions and any adjustment for the surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined above).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- for employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

4.5 Full Funding and Solvency

The Fund is deemed to be fully funded when the assets held are equal to or greater than 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

4.6 Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates will be adjusted to target restoration of the Funding Target over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the

Administering Authority in consultation with the Fund actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term the recovery period is set with regard to the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods when the employer has a deficiency and has agreed with the Fund Actuary a limit of 25 years in these circumstances, which can be extended in exceptional circumstances for employers of sound covenant to an absolute limit of 40 years. The Administering Authority's policy with regard to employers with a deficit (surplus) is to agree recovery periods with each employer which is as short (long) as possible within this framework. The Administering Authority may encourage employers with a surplus not to take any reduction in their contribution rate to assist with stability requirements.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

For deferred employers, the recovery period will be set equal to the remaining period of the deferred debt agreement.

4.7 Long term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return required compares to the Administering Authority's view of the expected future return being targeted by the Fund's investment strategy.

4.8 Phasing in of Contribution Rates

Phasing in periods will be influenced by the perceived credit worthiness of the employer when there is a deficiency. The Administering Authority's policy is that in the normal course of events no more than 3 annual steps will be permitted.

Further steps may be permitted at the Administering Authority's discretion, but the total is unlikely to exceed 6 steps. No limit will be set to phasing in contribution rates when the employer has a surplus.

4.9 Grouping or Pooling

In some circumstances it is desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits at no fault of the employer can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain responsibility for the payment of the contributions towards the deficit relating to them.

In addition Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid.

The employers to whom these grouping arrangements apply are set out as an Appendix to this Statement.

4.10 Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own asset share within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit payments, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The actuary will assume an estimated cashflow equal to the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for lump sum death in service benefits shared across all employers in the Fund.
- An overall adjustment, as part of each triennial valuation, to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, or the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers, the actuary will instead use an analysis of gains and losses to roll forward the asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset share.

4.11 Fund Maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll.

To protect the Fund against the risk of payroll failing to grow at the assumed rate, the Administering Authority will monitor payrolls where this approach is agreed.

4.12 Benefit uncertainties

Current benefit uncertainties are set out in section 6.5 Regulatory Risk.

At present the Administering Authority considers that an allowance should be made for the potential future costs of McCloud/Sargeant cases via an increase in ongoing employer contributions and a loading to the liabilities calculated in exit valuations. This allowance will be monitored by the Administering Authority and Fund Actuary and may be updated once further information is available. Further details are set out in the Employer Policy.

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5. Special Circumstances related to certain employers

5.1 Interim Reviews

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in the Employer Policy.

5.2 Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an exiting employer defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an admission body. The effect of that action could be to reduce the Funding Target and Solvency Target for the employer, which could probably lead to reduced contribution requirements.

5.3 Bonds and other securitization

Paragraph 6 of Part 3 of Schedule 2 of the LGPS 2013 Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i)) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the Admission Body.

- The Administering Authority's approach in this area is set out in the Employer Policy.

5.4 Subsumed Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund (the 'accepting employer') has agreed to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them has been taken on by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

5.5 Orphan Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority may act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arising on the orphan liabilities creates a cost for those other employers to make good such deficiency. To give effect to this, the Administering Authority may seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

However, if these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target used for Scheduled Bodies for practical reasons.

Any excess or deficient returns on the notional or actual assets attributable to these liabilities relative to the Funding Target will be added to or deducted from the investment return to be attributed to the notional assets of all employers in the Fund.

Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Fund Actuary notionally re-allocating assets within the Fund as required.

5.6 Exit Valuations

Where an employer exits the Fund, an exit valuation will be carried out in accordance with regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing

contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed (see above) by other employers.

For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

For orphan liabilities the exit valuation could anticipate investment in low risk investments such as Government bonds or be calculated in the same way as subsumed liabilities, as considered appropriate.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation (in other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required) unless it is agreed by the Administering Authority and the other parties involved that:

- the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer; or
- the employer and Administering Authority will enter into a deferred debt agreement

Any deficit would normally be levied on the departing employer as a single capital payment, although the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out in the Employer Policy.

For exits where the calculations are carried out on or after 1 January 2021, the following refinements will be made to the approach at the 2019 funding valuation:

- allowance will be made for the proposed McCloud remedy as set out in MHCLG's consultation on draft Regulations
- allowance will be made for the expected changes to GMP indexation and equalisation as set out in Government's response to the consultation, i.e. extension of the interim solution of paying full pension increases from the Fund.

5.7 Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be

deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided. In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- (a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)
- (b) the proportion of the surplus which has arisen because of the value of the employer's contributions
- (c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the 2013 Regulations, and
- (d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

In particular:

- the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit;
- where an employer has a risk sharing in place with Powys County Council such that it pays only the future service rate, no exit credit or payment will be made, and all assets and liabilities will be subsumed by Powys County Council.

Further details of the Administering Authority's policy for exit valuations and exit credits are set out in the Employer Policy.

5.7 Deferred Employers

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Further details of the Administering Authority's policy for deferred debt agreements are set out in the Employer Policy.

6. Key Risks & Controls

6.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- investment;
- solvency;
- liability;
- regulatory;
- employer.

The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

6.2 Investment Risks

Risk	Control
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. The Administering Authority will request quarterly funding updates between the completion of the valuation report and the date of the next valuation to monitor the position.
Inappropriate long-term investment strategy	Set Fund-specific benchmark in accordance with appropriate advice.
Active investment manager underperformance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. The Fund Actuary will be asked to evaluate the implications if there is significant underperformance.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

Risk	<i>Control</i>
	Consult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.
Potential cashflow implications of increasing maturity of the Fund, for example as a result of reduced numbers of staff working in local government or through outsourcing	<p>Regularly review position including communication with employers about their plans.</p> <p>Plan investments to ensure sufficient liquidity.</p>
Pooling of investments	<p>The Fund holds assets in the LGPS pooling arrangement with Wales Pension Partnership ('WPP') and will transition further assets to WPP in the future. Through this arrangement the Fund is exposed to the risk of failing to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy. The Committee monitor the WPP and work with the investment consultant to ensure these risks are managed.</p> <p>In addition, some of the Fund's investments are in pooled investment vehicles and the Fund is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Committee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.</p>

Risk	Control
Climate Change	The Fund recognises that climate change is one of the material factors that pose a potential financial risk over our timescale, and that as institutional investors, there is an ability to help tackle the challenges posed by climate change.

6.3 Solvency Risks

Risk	Control
Permitting surpluses or deficiencies to be eliminated over a <u>recovery period</u> rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.	It is policy to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years in the vast majority of circumstances, and no longer than 40 years under any circumstances.
Permitting contribution rate changes to be introduced by <u>annual steps</u> rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.	The risks inherent in each situation are discussed with the Fund Actuary and to limit the number of permitted steps to three annual steps or, at the Administering Authority's discretion, to six annual steps.

6.4 Liability Risks

Risk	Control
Pensioners living longer and changing retirement patterns.	<p>Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary investigates these matters at each valuation or if appropriate more frequently and will report on developments.</p> <p>If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers on the anticipated costs that will emerge at the next valuation and will review the bonds that are in place for the Transferee Admitted Bodies.</p>
Deteriorating patterns of ill health and other early retirements	Employers are charged the extra capital cost of non ill health early

Risk	Control
	<p>retirements following each individual decision.</p> <p>Ill health retirements will be monitored.</p>
Demographic experience differing from the assumptions used by the actuary	The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation, or more frequently if appropriate.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<p>Allowing for a risk-based approach should limit the impact of short term changes in returns on Government bonds on the liabilities.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Inter-valuation monitoring, as set out above, gives early warning of changing liability values.</p>
Pay and price inflation significantly more than anticipated	Employers pay for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Where it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A.	

6.5 Regulatory Risk

Risk	Control
Changes to regulations.	<p>The Administering Authority will keep abreast of all proposed changes and where possible express their opinion during consultation periods after careful consideration.</p> <p>The Fund Actuary is asked to assess the impact on costs of any changes and where these are likely to be significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.</p>

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There are a number of uncertainties associated with the benefit structure at the current time including:

- How Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021
- The timing of any final regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases.
- The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay, before the process was paused due to the McCloud/Sargeant ruling
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions from 1 April 2020 the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice. In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the LGPS 2013 Regulations as a result of this consultation and consider any actions required at the 2019 or subsequent valuations, taking account of the Fund Actuary's advice.

6.6 Employer Risk

Risk	Control
Administering Authority being unaware of structural changes in an employer's membership (e.g. large fall in employee members or a large number of retirements).	<p>The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Committee.</p> <p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) or 64(7) of the</p>

Risk	Control
	LGPS 2013 Regulations between triennial valuations.
The risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members).	<p>The Administering Authority monitors membership movements on an annual basis as set out above.</p> <p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) of the LGPS 2013 Regulations between triennial valuations.</p>
Administering Authority failing to commission the Fund Actuary to carry out an exit valuation for a departing employer and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers to inform it of forthcoming changes
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</p> <p>Requiring a bond or some other security to protect the scheme from the existing deficit and the extra cost of early retirements on redundancy if the employer failed.</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before</p>

Risk	Control
	admission.
The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions.	The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Fund's policy are met.

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Appendix

Grouped employers

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain responsibility for the payment of the contributions towards the deficit relating to them. The following employers included in this group at the date of writing this Statement are as follows:

- Welshpool Town Council
- Llanidloes Burial Joint Committee
- Town Council of Newtown & Llanllwchaearn
- Ystradgynlais Town Council
- Ystradfellte Community Council
- Llandrindod Wells Town Council
- Brecon Town Council
- Llanidloes Town Council
- Machynlleth Town Council

Risk sharing

Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid. The employers who have signed such an agreement at the date of writing this Statement are as follows:

- PAVO
- Powys Dance
- Solo Services Group Limited
- Heart of Wales Property Services
- Theatr Brychyniog
- Adapt Business Services Limited
- The Ystradgynlais Miners Welfare & Community Hall Trust Ltd

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