



Pension Fund Accounts 2019/2020



Contents

Statement of Responsibilities for the Statement of Accounts.....	5
Fund Administration Report.....	6
Scheme Statistics and Performance	7
Investment Report	9
Net Assets Statement.....	12
Pension Fund Account.....	12
Notes to the Pension Accounts	13
The independent auditor’s statement of the Auditor General for Wales to the members of Powys Pension Fund on the Annual Report	35
Statement of the Actuary for the Year Ended 31 March	38
Appendix 1: Pensions and Investment Committee.....	42
Appendix 2: Fund Employers.....	43

Statement of Responsibilities for the Statement of Accounts

The Pension Fund's Responsibilities

The Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. For Powys County Council Pension Fund, that officer is the Section 151 Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

These accounts were approved by Audit Committee on 19 November 2020.

Signature:

Date 19 November 2020

Audit Committee Chairman

Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice"). These accounts are required to present a true and fair view of the financial position of the Fund at the accounting date and its income and expenditure for the year.

In preparing this Statement of Accounts, the Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and consistent.
- Complied with the Code of Practice.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Section 151 Officer on the Accounts of Powys County Council Pension Fund for 2019/20.

I certify that the accounts set out on pages 6 to 35 present a true and fair view of the financial position of Powys County Council Pension Fund as at 31 March 2020 and its income and expenditure for the year then ended.

Signature:

Date 19 November 2020

J Thomas, Head of Finance

Fund Administration Report

Scheme Details

Powys County Council is the Administering Authority for the Powys Pension Fund. The Pension Fund provides pension entitlements under the Local Government Pension Scheme (“LGPS”) to all eligible employees of Powys County Council and other participating bodies. See appendix 2 for a list of the fund employers. Membership of the LGPS is not mandatory and excludes teachers, police officers and fire fighters, for whom specific separate pension schemes are available. The LGPS is a statutory public service defined benefit pension scheme based on final salary for benefits accrued up to 31 March 2014 and Career Average Revalued Earnings (“CARE”) for benefits accrued from 1 April 2014. Contributions payable by employees and the benefits due to them are prescribed by the Local Government Pension Scheme Regulations.

Additional Voluntary Contribution (AVC) Scheme

Since 6 April 1988, it has been a legal requirement for all pension schemes to provide members with access to an in-house AVC Scheme. The Powys Pension Fund’s appointed providers are the Equitable Life Assurance Society, the Standard Life Assurance Company and Prudential plc. Members are able to pay contributions into a variety of AVC arrangements offered by the providers, to secure additional pension benefits. The AVC investments are excluded from the Pension Fund Accounts but are disclosed for information in note 15.

Annual Governance Statement

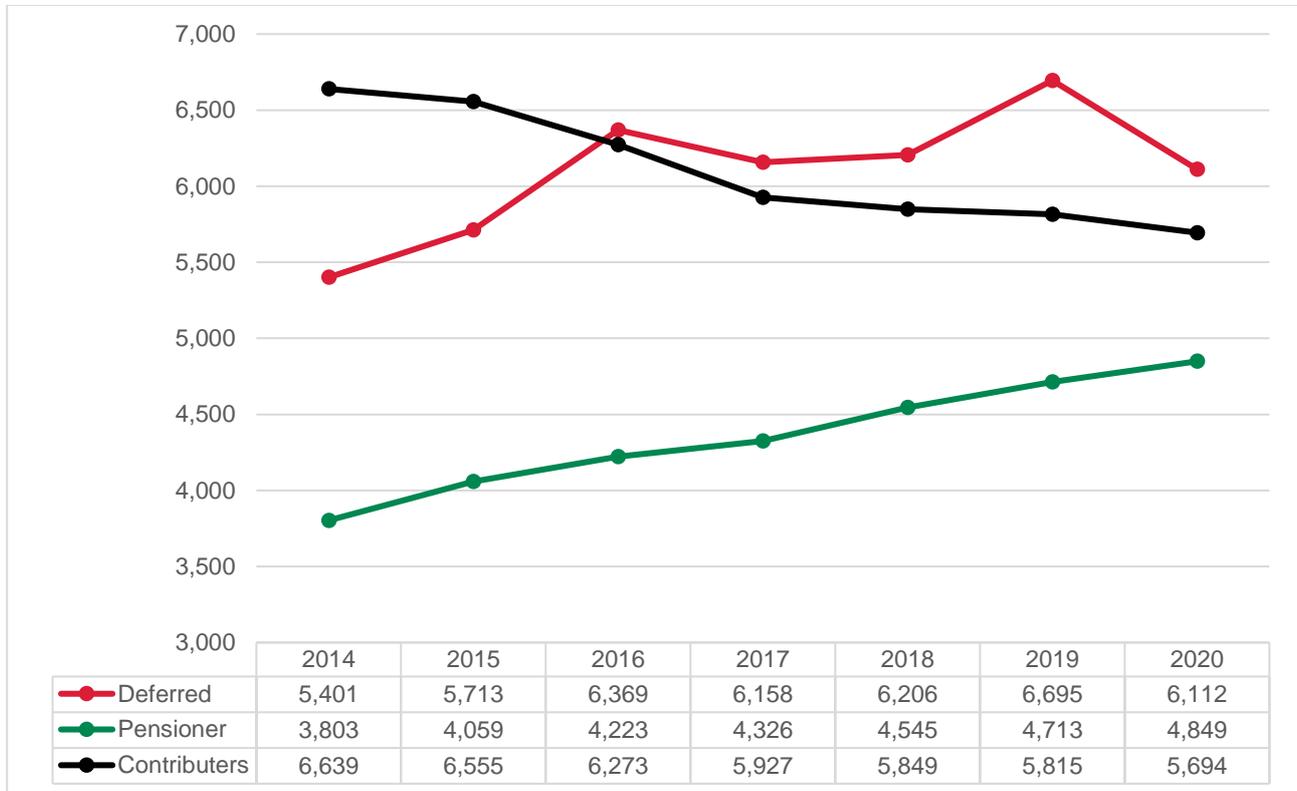
The Annual Governance Statement of Powys County Council is disclosed as a separate document and can be viewed on the Authority’s website.

<https://en.powys.gov.uk/article/7469/Council-Accounts>

Scheme Statistics and Performance

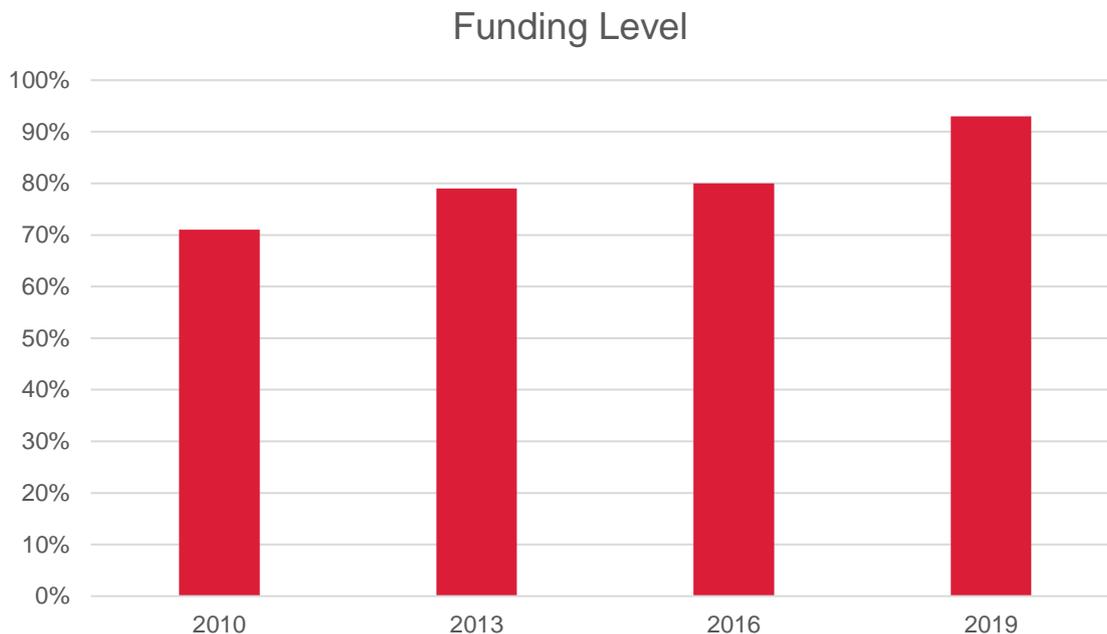
Membership Trends

The graph below shows the membership of the Fund as at 31 March. Deferred members are former employees of the contributing authorities who have yet to draw their pensions.



The total for deferred members does not include unprocessed leavers or frozen refunds.

Funding and Valuation



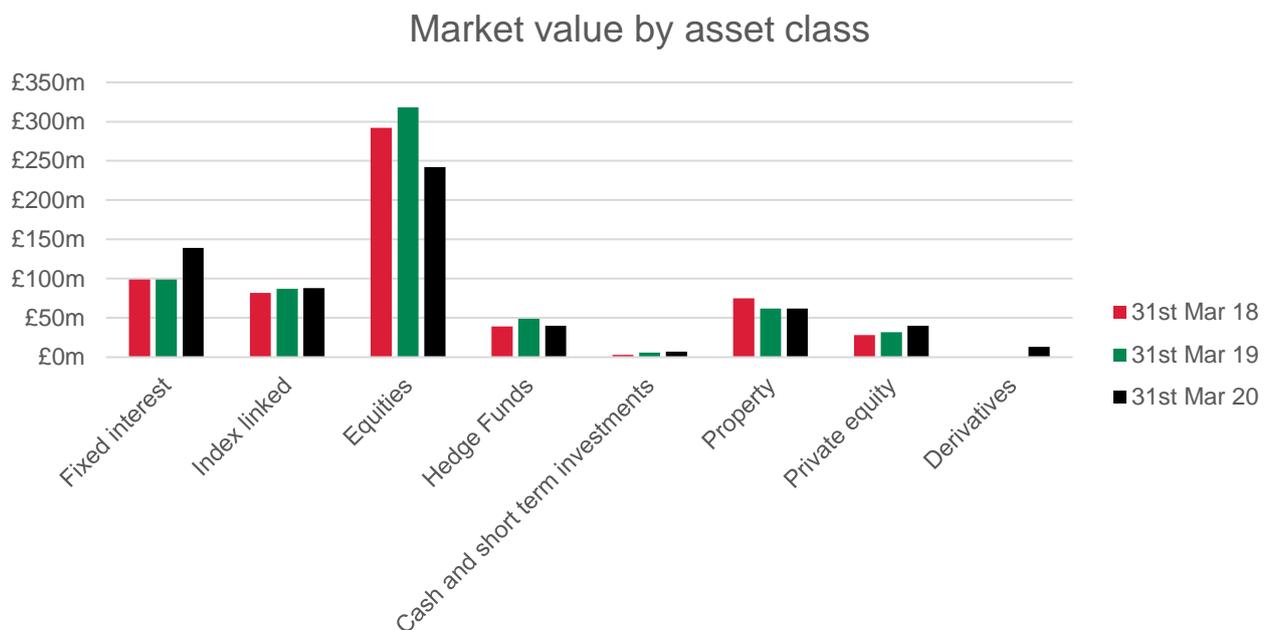
The aim of the funding is to accumulate current contributions at a level sufficient to provide known benefits at some time in the future. In short therefore, the scheme benefits are financed by contributions from employees and employers together with income from investments. Both the employees' contributions and the benefits to be provided by the scheme are fixed by the Government as set out in the Local Government Pension Scheme Regulations, leaving the employers' rate of contribution as the only element which can be deliberately adjusted.

The employers' rate of contribution is assessed by the Actuary to the Fund who reviews the future income and liabilities of the Fund. These reviews, or actuarial valuations, are required by law with a major review being undertaken every third year. The statement of the actuary can be seen on page 36.

The actuarial valuation as at 31 March 2019 showed the assets held at the valuation date were sufficient to cover 93% of the accrued liabilities assessed on an ongoing basis. This is a marked improvement on the 80% achieved as at 31 March 2016, however, it is the long-term goal to achieve 100% funding and efforts continue to be made to address this. The level of funding has no impact on members' benefits which are guaranteed by law.

Investment Report

The prime requirement in managing the Fund is to ensure adequate diversification of its assets over different asset classes and different geographical areas. The right balance must be struck between the desire for enhanced returns and potential 'risk' of volatility in those returns i.e. the investment policy of the Fund is aimed at maximising returns within the acceptable limits of risk. There is no ideal split for any fund, so the portfolio balance needs to be regularly monitored and adjusted in line with the economic, financial and market indicators.



The investment style of the Fund is to appoint external expert fund managers with clear performance benchmarks and place accountability for performance against those benchmarks on the fund managers. The benchmarks are outlined in paragraph 6.3 of the Investment Strategy Statement which can be viewed at www.powyspensionfund.org. The Chief Financial Officer must ensure that the management of the Fund falls within the requirements of the Local Government Pension Scheme Regulations.

During 2019/20 the transition of active equity funds to the Wales Pension Partnership Pool was completed, also, an equity protection strategy using derivatives was undertaken during the period. Of the £30.9m capital commitment (Note 18) outstanding as at 31 March 2019, £4.9m was drawn down in 2019/20.

Performance Review

	1 Year %	3 Years %	5 Years %
Powys Pension Fund Overall Return	(0.95)	2.23	5.15
Inflation CPI	1.7	2.3	1.6
Average Earnings Index	3.1	2.8	2.6

Given the long-term nature of the Fund, perhaps the most significant column above is that detailing the comparisons over five years. Inflation and average earning percentages are taken from the Office for National Statistics data.

Investment manager structure as a percentage of fund total, as at 31 March 2020

	Blackrock	Link WPP	Insight Investments	CFM, IPM & MAN	Aviva, CBRE, Schroders & Hermes	Standard Life & Harbourvest	
Asset Class	Passive %	Active %	Active %	Active %	Active %	Active %	Total %
Equities	22.4	16.0	-	-	-	-	38.4
Bonds	4.8	-	17.1	-	-	-	21.9
Index Linked	9.2	-	4.8	-	-	-	14.0
Hedge Fund	-	-	-	6.3	-	-	6.3
Property	-	-	-	-	9.7	-	9.7
Private Equity	-	-	-	-	-	6.5	6.5
Derivatives	-	-	2.1	-	-	-	2.1
Cash/ Other	0.6	0.5	-	-	-	-	1.1
Total	37.0	16.5	24.0	6.3	9.7	6.5	100.0

The strategic asset allocation is as follows:

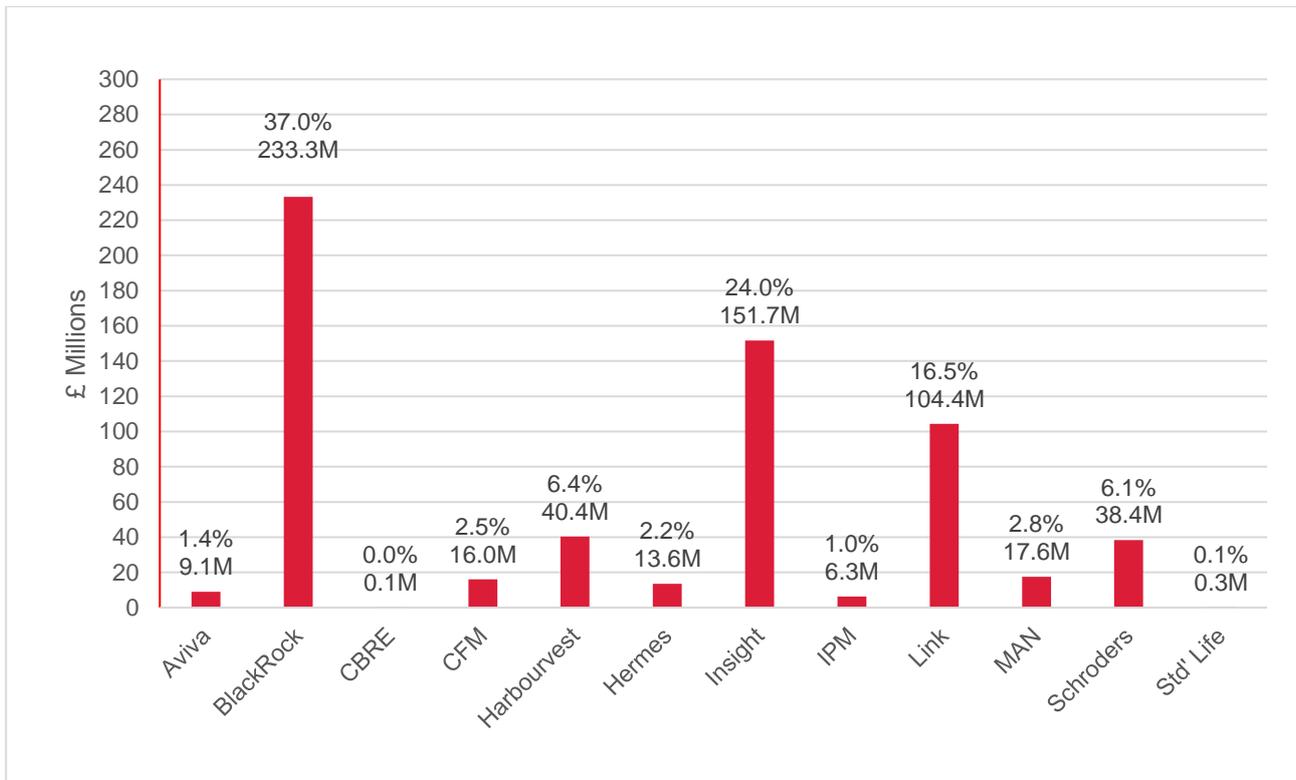
2018/19		2019/20
47%	Equities	47%
30%	Fixed interest and index linked securities	30%
10%	Property	10%
5%	Private equity	5%
8%	Hedge fund of funds	8%
100%	Total	100%

The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of the fund's Investment Advisors.

The strategic asset allocation is the ideal target and cannot be achieved until the scheme is fully funded in all areas. It does not reflect the actual investments held at the year-end. The current structure aims to have a 70:30 split between return seeking and liability matching assets.

PENSION FUND ACCOUNTS

The market value of assets spread between the fund managers as at 31 March 2020 is shown below.



Net Assets Statement

As at 31 March

2019 £'000		Note	2020 £'000
652,770	Investments	12	631,105
3,215	Current Assets	13	14,243
(1,412)	Current Liabilities	13	(803)
654,573	Net Asset as at 31 Mar		644,545

The accounts show cash held with the Investment Managers as investments as recommended in the Statement of Recommended Practice, Financial Reports for Pension Schemes.

Pension Fund Account

2018/19 £'000		Note	2019/20 £'000
	Contributions and benefits		
(26,545)	Contributions receivable	4	(27,367)
(1,851)	Transfers in	5	(1,459)
(31)	Other income	6	(34)
(28,427)	Total income		(28,860)
26,218	Benefits payable	7	28,579
2,664	Payments on account of leavers	8	2,746
3,602	Management expenses	9	3,977
32,484	Total expenditure		35,302
4,057	Net withdrawals from dealing with members		6,442
	Returns on investments		
(6,153)	Investment income	10	(5,690)
2	Taxes on Income	11	1
(33,542)	Changes in the market value of investments	12	9,275
(39,693)	Net profit on investments		3,586
(35,636)	Net (increase)/decrease in the fund		10,028
618,937	Opening net assets		654,573
654,573	Closing net assets		644,545

Notes to the Pension Accounts

Note 1: Basis of Preparation.....	14
Note 2: Accounting Policies.....	14
Note 3: Critical Judgements in Applying Accounting Policies	16
Note 4: Contributions Receivable	17
Note 5: Transfers In	17
Note 6: Other Income	17
Note 7: Benefit Payable	18
Note 8: Payments to and on Account of Leavers	18
Note 9: Management Expenses	18
Note 9a: Investment Management Expenses.....	18
Note 10: Investment Income.....	19
Note 11: Taxes on Income.....	19
Note 12: Investments.....	20
Note 13: Current Assets and Liabilities	23
Note 14: Related Party Transactions.....	23
Note 15: Additional Voluntary Contributions (AVC).....	23
Note 16: Contingent Liabilities	24
Note 17: Post Balance Sheet Events	25
Note 18: Capital Commitments.....	25
Note 19: Stock Lending	25
Note 20: Financial Instruments.....	26
Note 21: Actuarial Present Value of Promised Retirement Benefits	28
Note 22: Nature and Extent of Risks Arising from Financial Instruments	30
Note 23: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	34

Note 1: Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the 2019/20 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Note 2: Accounting Policies

Contributions and Benefits

Contributions are accounted for on an accruals basis. Benefits payable represents the benefits entitlement up to the end of the reporting period.

Transfers to other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contribution to purchase scheme benefits are accounted for on a receipts basis and are included in Additional Contributions.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Refunds to Leavers

These are accounted for when due.

Investment Management Expenses

Each fund manager receives a fee for their services based on the market value of the assets they manage.

Investment Income

Interest income

Investment income is recognised in the fund account as it accrues.

Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Change in Market Value

Changes in market value of investments comprise reinvested investment income and all realised and unrealised profits/losses during the year.

Foreign Currency Transactions

Assets and liabilities held in a foreign currency are translated at the rate of sterling quoted at year-end. Income and expenditure arising during the year is translated into sterling at the rate quoted on the date of receipt or payment. Resulting exchange gains or losses are recognised through the revenue account.

Valuation of Assets

No property is directly held by the fund. The market value used for quoted investments is the bid market price ruling on the final day of the accounting period. Fund Managers value unquoted securities at the year-end in line with generally accepted guidelines to ascertain the fair value of the investment. Change in Market value also includes income which is reinvested in the fund, net of applicable tax. Fixed interest securities are recorded at net market value based on their current yields. Fair value for limited partnerships is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. It is not the intention of the fund to dispose of unquoted investments before maturity.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and that are subject to minimal risk of changes in value.

Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial value of promised retirement benefits by way of a note to the net assets statement (note 21).

Administrative expenses

All staff costs of the pension administration team and other overheads are apportioned to the fund in accordance with Council policy.

Contingent Liabilities

Contingent liabilities are possible liabilities whose existence will only be confirmed by future events and are not recognised until the realisation of the loss is virtually certain.

Additional Voluntary Contributions (AVC's)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 15).

Note 3: Critical Judgements in Applying Accounting Policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equity investments are valued by the investment managers using acceptable guidelines. The value of these investments at 31 March 2020 was £40.7m (31 March 2019: £31.8m).

Property Fund valuations

The outbreak of the Covid-19 pandemic has impacted global financial markets creating uncertainty surrounding illiquid asset values. As at 31 March 2020, our property managers consider that less weight can be attached to valuations, resulting in valuations being reported on the basis of 'material valuation uncertainty'.

An analysis of investments can be found later in Note 12a.

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the statement of the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 4: Contributions Receivable

2018/19 £'000	By Category	2019/20 £'000
21,480	Employers	22,257
5,065	Employees	5,110
26,545		27,367

2018/19 £'000	By Authority	2019/20 £'000
24,225	Powys County Council (administering body)	25,214
956	Scheduled bodies	921
1,364	Admitted bodies	1,232
26,545		27,367

2018/19 £'000	By Type	2019/20 £'000
15,008	Employers normal contributions	15,329
5,065	Employees normal contributions	5,110
982	Employers additional contributions	679
5,490	Employers deficit reduction contributions	6,249
26,545		27,367

Note 5: Transfers In

2018/19 £'000		2019/20 £'000
1,851	Individual transfers from other schemes	1,459

Note 6: Other Income

2018/19 £'000		2019/20 £'000
10	Administrative fees received	34
21	Additional allowances recovered	-
31		34

Note 7: Benefit Payable

2018/19 £'000		2019/20 £'000
22,103	Pensions	23,040
3,594	Commutations and lump sum retirement benefits	4,826
521	Lump sum death benefits	713
26,218		28,579

Benefits can be further analysed as follows:

2018/19 £'000		2019/20 £'000
22,368	Powys County Council (administering authority)	24,630
2,546	Scheduled bodies	2,681
1,304	Admitted bodies	1,268
26,218		28,579

Note 8: Payments to and on Account of Leavers

2018/19 £'000		2019/20 £'000
55	Refunds to members leaving service	48
2,609	Individual transfers to other schemes	2,698
2,664		2,746

Note 9: Management Expenses

2018/19 £'000		2019/20 £'000
1,019	Administration expenses	1,073
2,432	Investment management expenses (see Note 9a)	2,778
151	Oversight and governance costs	126
3,602		3,977

Note 9a: Investment Management Expenses

2018/19 £'000		2019/20 £'000
2,058	Management fees	2,461
345	Investment advice	306
29	Custody fees	11
2,432		2,778

Note 10: Investment Income

2018/19 £'000		2019/20 £'000
(25)	Interest on cash deposits	(31)
(752)	Income from bonds	(706)
(1,632)	Pooled property investments	(1,624)
(3,737)	Private equity income	(3,327)
(7)	Other investment income	(2)
(6,153)		(5,690)

Note 11: Taxes on Income

2018/19 £'000		2019/20 £'000
2	Foreign tax on investment	1
2		1

Note 12: Investments

	Value as at 1 Apr 19	Purchases at Cost	Sales Proceeds	Fees included in NAV	Cash Movement	Change in Market Value	Value as at 31 Mar 20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	99,008	39,500	(706)	(80)	706	302	138,730
Index linked Securities	86,418	7,310	(7,109)	(99)	-	1,839	88,359
Equities (pooled funds)	318,149	79,512	(130,670)	(648)	-	(24,506)	241,837
Property (pooled funds)	62,104	1,079	(841)	(393)	588	(1,425)	61,112
Private Equity	31,779	4,954	(5,517)	(619)	3,287	6,840	40,724
Hedge Fund of Funds	49,365	7,000	(12,091)	(510)	-	(3,847)	39,917
Derivatives (Options)	-	-	-	-	5,409	7,940	13,349
Cash & Short Term Investments	5,947	31,048	(33,500)	-	-	3,582	7,077
	652,770	170,403	(190,434)	(2,349)	9,990	(9,275)	631,105

	Value as at 1 Apr 18	Purchases at Cost	Sales Proceeds	Fees included in NAV	Cash Movement	Change in Market Value	Value as at 31 Mar 19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	99,294	4,000	(4,752)	(76)	752	(210)	99,008
Index linked Securities	81,959	37,620	(38,200)	-	-	5,039	86,418
Equities (pooled funds)	291,722	95,689	(91,709)	(459)	-	22,906	318,149
Property (pooled funds)	74,542	1,151	(16,071)	(452)	522	2,412	62,104
Private Equity	28,465	4,696	(6,264)	(558)	3,695	1,745	31,779
Hedge Fund of Funds	39,599	48,600	(40,128)	(255)	-	1,549	49,365
Cash & Short Term Investments	2,746	51,600	(48,500)	-	-	101	5,947
	618,327	243,356	(245,624)	(1,800)	4,969	33,542	652,770

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Some transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

These transaction costs incurred in the year are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not

separately provided to the scheme. All equity investments held by the fund are in unitised funds.

The notional value of the Derivative options as at 31st March 2020 is £147m

Derivatives Summary

Investment Objective

The investment objective is to hedge against the Fund's underlying exposures as may be communicated to the Investment Manager.

Investment Policy

The Investment Manager will seek to achieve the Fund's investment objective by investing in including but not limited to put and call options. Whilst the Base Currency is Sterling, the manager may invest in non-Sterling denominated assets which may not necessarily be hedged back into Sterling.

The investments may or may not be listed on recognised exchanges and markets and will be without restriction as to geographical, industrial or sectoral exposure.

The manager may take both long and short positions.

Note 12a: Analysis of Investments

2018/19 £'000		2019/20 £'000
	Bonds	
99,008	UK unit trusts quoted	138,730
	Index linked securities	
86,418	UK quoted	88,359
	Equities	
13,043	UK unit trusts quoted	12,977
305,106	Overseas unit trusts quoted	228,860
	Hedge Funds	
49,365	UK	39,917
	Private Equity	
31,779	Overseas unquoted	40,724
	Derivatives	
-	Options	13,349
	Property	
61,692	UK unit trusts quoted	61,047
412	Overseas unquoted	65
121	Cash	232
5,826	Liquidity Funds	6,845
652,770		631,105

Note 12b: Investments Analysed by Fund Manager

31 Mar 19			31 Mar 20	
Market Value £'000	%		Market Value £'000	%
9,151	1.4	Aviva Investors Pensions Ltd	9,086	1.4
291,885	44.7	BlackRock Global Investors Ltd	233,290	37.0
412	0.1	CBRE Ltd	65	0.0
15,280	2.4	CFM	16,019	2.5
31,184	4.8	HarbourVest Partners LLC	40,398	6.4
13,799	2.1	Hermes Fund Managers Ltd	13,601	2.2
36,528	5.6	Hosking	-	-
104,053	15.9	Insight Investment Ltd	151,697	24.0
7,257	1.1	IPM	6,342	1.0
77,056	11.8	Link WPP	104,365	16.5
14,874	2.3	MAN	17,556	2.8
38,742	5.9	Schroders Investment Management Ltd	38,360	6.1
596	0.1	Standard Life Investments Ltd	326	0.1
11,953	1.8	Stone Milliner	-	-
652,770			631,105	

The following investments represent more than 5% of the net assets of the scheme:

31 Mar 19			31 Mar 20	
Market Value £'000	%	Security	Market Value £'000	%
56,809	8.7	Blackrock Aquila Life Over 5Yr Uk Idx Lkd	58,295	9.0
41,187	6.3	Blackrock Aquila Life Currency Hedged MSCI World Index Fund	36,249	5.7
72,939	11.2	Blackrock Aquila Life Currency Hedged US Equity Index Fund	63,133	9.8
36,528	5.6	Hosking Partners	-	-
47,097	7.2	Insight Bonds Plus fund	80,530	12.5
77,056	11.8	Link WPP	104,365	16.2
38,742	5.9	Schroder UK Real Estate Fund	38,360	6.0

Note 13: Current Assets and Liabilities

2018/19 £'000		2019/20 £'000
	Current Assets	
167	Contributions due from employers and members	114
2,557	Cash balances	13,510
491	Sundry debtors	619
3,215		14,243
	Current Liabilities	
(269)	Benefits payable	(632)
(1,143)	Sundry creditors	(171)
(1,412)		(803)

Amounts unpaid at the year end are subsequently paid within a reasonable time frame, i.e. the majority of the balances are paid within a 3 month period.

Note 14: Related Party Transactions

Details of Members and officers of the Council represented on the Pensions and Investment Committee are shown in Appendix 1. Their combined contributions into the scheme totalled £20.8k in 2019/20 (£19.2k in 2018/19).

The Fund is administered by Powys County Council. Consequently, there is a relationship between the Authority and the Fund.

The Authority incurred costs of £942k in 2019/20 (2018/19: £916k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £19,942k to the Fund in 2019/20 (2018/19: £18,761k) in employers contributions and deficit recovery payments.

Governance

The makeup of the Pensions and Investment Committee can be seen in Appendix 1.

The role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.

Councillors are required to declare their interest at each meeting.

The Committee members and Section 151 Officer accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

For the full Governance Statement please see Powys County Council Annual Report Appendix 5.

Note 15: Additional Voluntary Contributions (AVC)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds)

Regulations 2009 (SI 2009/3093). However, as administering authority we oversee the following AVC arrangements:

2019/20	Standard Life	Prudential	Equitable Life	Total
Contributions received	£'000	£'000	£'000	£'000
Powys County Council	41	242	-	283
BBNP	-	17	-	17

	Standard Life	Prudential	Equitable Life	Total
Fund Value	£'000	£'000	£'000	£'000
As at 31 Mar 20	872	1,173	81	2,126

Fund values at 31 March 2020 were not provided at 15th June 2020.

Note 16: Contingent Liabilities

No contingent liabilities were known to exist at the Balance Sheet date.

Note 17. Post Balance Sheet Events

There are no known post balance sheet events.

Note 18: Capital Commitments

2018/19 £'000	Private Equity and Property mandate	2019/20 £'000
937	Standard Life (Private Equity)	962
29,920	Harbourvest (Private Equity)	26,582
30,857		27,544

The Pension Fund has committed to guaranteed investments in private equity that the asset managers can draw down upon as and when required. The Capital Commitments figure above, represents the level of investment guaranteed but not yet drawn down at the year end.

Note 19: Stock Lending

The Investment Strategy Statement (included in the Annual Report) sets out the fund's policy on stock lending.

Note 20: Financial Instruments

Note 20A: Classification of financial instruments & liabilities

31 Mar 2019			31 Mar 2020	
Amortised cost £'000	Fair value through profit and loss £'000		Amortised cost £'000	Fair value through profit and loss £'000
		Financial Assets		
	128,617	Fixed interest securities		138,730
	56,809	Index linked securities		88,468
	318,149	Equities (pooled funds)		245,267
	62,104	Property (pooled funds)		61,111
	31,779	Private equity		40,725
	49,365	Hedge fund of funds		39,917
		Derivatives (options)		13,350
5,947		Cash & short term investments	3,537	
3,215		Current assets	14,243	
9,162	646,823	Total financial assets	17,780	627,568
		Financial Liabilities		
(1,412)		Current liabilities	(803)	
(1,412)			(803)	

Note 20B: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

PENSION FUND ACCOUNTS

The private equity values are based on valuations provided by the general partners to the private equity funds in which the Powys Pension Fund has invested.

The hedge fund values are based on the net asset value provided by the fund manager.

The tables below show the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Value as at 31 Mar 20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	371,637	165,476	93,992	631,105
Current assets	14,243	-	-	14,243
Current liabilities	(803)	-	-	(803)
Net financial assets	385,077	165,476	93,992	644,545

Value as at 31 Mar 19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	432,466	139,160	81,144	652,770
Current assets	3,215	-	-	3,215
Current liabilities	(1,412)	-	-	(1,412)
Net financial assets	434,269	139,160	81,144	654,573

Reconciliation of Level 3 movements

Level 3 asset	Value as at 31 Mar 19 £'000	Purchases, sales & transfers £'000	Change in market value £'000	Value as at 31 Mar 20 £'000
Hedge funds	49,365	(5,091)	(4,357)	39,917
Private equity	31,779	(563)	9,509	40,725
Derivatives	-	-	13,350	13,350
Total	81,144	(5,654)	18,502	93,992

Note 21: Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2019 of the actuarial valuation of promised retirement benefits as set out in IAS 26. The actuarial present value should be calculated on an IAS 19 basis. IAS 26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

The actuarial present value of the promised retirement benefits were as follows

31 March 2016 £'000	31 March 2019 £'000
724,600	962,200

Assumptions used

	31 March 2016 %	31 March 2019 %
Discount rate	3.4	2.4
Inflation (CPI)	1.8	2.2
Salary increase rate	3.3	3.7

McCloud / Sargeant Judgement

The actuarial present value of the defined benefit obligation at 31 March 2019 includes an estimated liability in relation to the McCloud / Sargeant Judgement of £6.99m.

The McCloud / Sargeant Judgement (December 2018) found that the transitional arrangements put in place when the firefighters' and judges' pension schemes were reformed constituted illegal discrimination. The Government has since committed to compensate members of all public service schemes who were illegally discriminated against. In relation to the LGPS in England and Wales, all members joined the new 2014 Scheme for membership after 1 April 2014, but members within 10 years of normal retirement were given an underpin (or "better of both") promise so their benefits earned after 1 April 2014 would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

The remedy for the LGPS is expected to be consulted upon in the summer. The additional liability included within this note assumes the underpin will be extended to cover all members who were actively participating in the Scheme on 1 April 2012 and not just those within 10 years of retirement and will apply on retirement or the date of leaving service if earlier.

Equalisation and indexation of Guaranteed Minimum Pensions

The actuarial present value of the defined benefit obligation includes an estimated liability in relation to the equalisation and indexation of Guaranteed Minimum Pensions (GMPs) beyond the arrangements already formally in place, which apply to members whose State Pension Age (SPA) is between 6 April 2016 and 5 April 2021 inclusive. Those arrangements require the LGPS to pay pension increases on GMPs at the full rate of CPI for those members, whereas GMP legislation only requires limited price increases to be applied. The additional liability included within this note assumes those arrangements for

fully indexing GMPs will be extended to members whose SPA is after 5 April 2021. This has increased the defined benefit obligation by in the region of 0.1% to 0.2%.

Note 22: Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other Price Risk

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

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification.

Other Price Risk – Sensitivity Analysis

The following movements in market price risk are considered reasonably possible for 2020/21. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain unchanged.

PENSION FUND ACCOUNTS

Asset Type	Value as at 31 Mar 20 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Active Equity	104,365	12.55	117,462	91,267
Passive Equity	140,902	13.88	160,459	121,345
UK Corporate Bonds	41,551	4.85	43,566	39,535
Absolute Bonds	80,530	2.69	82,696	78,364
Index Linked	88,358	10.51	97,644	79,072
Government Bonds	16,649	5.53	17,570	15,729
Property	61,111	1.91	62,278	59,944
Private Equity	40,725	10.05	44,818	36,632
Hedge Funds	39,917	4.55	41,734	38,101
Derivatives	13,350			
Cash & short term investments	3,647	0.17	3,654	3,641
Total Assets	631,105		671,881	563,630

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate and return are monitored by the Council and its investment advisors as part of the monthly and quarterly reporting and assessment of interest rate return against benchmark.

Interest rates are expected to remain unchanged in the next twelve months, based on the Authorities Treasury Management advisors latest advice. The Fund's exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below.

As at 31 Mar 19 £'000	Asset Type	As at 31 Mar 20 £'000
5,947	Cash Instruments	3,537
2,557	Cash balances	13,510
128,617	Bonds	182,253
137,121	Total	199,300

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management, including monitoring the range of exposure to currency fluctuations.

PENSION FUND ACCOUNTS

The fund's currency exposure as at 31 March 2019 and 31 March 2020 is set out below.

As at 31 Mar 19 £'000		As at 31 Mar 20 £'000
31,779	Private equity	40,725
36,528	Equities (Pooled Funds)	-
68,307	Total	40,725

A 10% volatility associated with exchange rates is considered likely, based on analysis of historical movements.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value as at 31 Mar 20 £'000	Value on Increase £'000	Value on Decrease £'000
Private equity	40,725	44,798	36,653
Total	40,725	44,798	36,653

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The table below shows the funds cash holding as at 31 March 2019 and 31 March 2020.

	Rating	As at 31 Mar 19 £'000	As at 31 Mar 20 £'000
Bank Current Account			
HSBC	AA-	91	223
Bank Deposit Account			
HSBC	AA-	2,466	13,287

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for meeting the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2020 the value of illiquid assets was £141.8m, which represented 22.5% of the total fund assets - (31 March 2019 - £143.2m, which represented 21.9% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's investment strategy.

All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Note 23: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted.

The Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2020 for 2020/21). None of the standards introduced in the 2020/21 code are expected to have a material impact on the financial statements.

The independent auditor's statement of the Auditor General for Wales to the members of Powys Pension Fund on the Annual Report

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Powys County Council as administering authority for Powys Pension Fund.

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Powys Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Powys Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

I draw attention to Note 3 'Critical Judgements in Applying Accounting Policies', of the financial statements, which describes the impact of material uncertainty disclosed in pension fund manager year-end valuation reports for the UK property funds they manage on behalf of the Powys Pension Fund. The Council has disclosed this material uncertainty.

My audit opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;

- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Powys Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
20 November 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Statement of the Actuary for the Year Ended 31 March

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Powys County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £654.6M) covering 93% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:
 - 20.6% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

- an allowance of 1.1% of pay for McCloud and cost management – see paragraph 9 below,

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 16 years from 1 April 2020, equivalent to 3.6% of pensionable pay (or £3.0M in 2020/21, and increasing by 3.6% p.a. thereafter), which together with the allowance above comprises the secondary rate.
3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	21.6	3.2
2021	21.6	3.3
2022	21.6	3.4

PENSION FUND ACCOUNTS

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate *	4.1% p.a.
Rate of pay increases	3.6% p.a.
Rate of increase to pension accounts	2.1% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% p.a.

** In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.*

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.8	24.9
Current active members aged 45 at the valuation date	23.1	26.3

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in

accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

▪ **Increases to GMPs:**

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

▪ **Cost Management Process and McCloud judgement:**

Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in June 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.1% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.1% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Powys County Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

<https://www.powyspensionfund.org/media/5318/powys-pension-fund-2019-valuation-report-v2.pdf>

Aon Hewitt Limited

May 2020

Appendix 1: Pensions and Investment Committee

The Pensions & Investment Committee is the principal decision-making body for the Pension Fund responsible for management, investment and administration issues. The Committee is governed by its constitution which sets out the Committee's authority, its membership and its overall mode of operation.

Members of the Committee are drawn from Powys County Council as the administering authority with the addition of two further (non-voting) members representing Fund Employers and Scheme Members. The Committee receives advice and guidance from both Officers of Powys County Council and external professional advisers. From 5 May 2018 the membership of the Committee was as follows:

County Councillor P Lewis (Chair)
County Councillor E A Jones (Vice Chair)
County Councillor T Van-Rees
County Councillor J Morris
County Councillor H Williams
County Councillor A Davies
Mr A M C Weale (Fund Employers)
Vacant (Scheme Members)

Officers and Advisors:

Mrs J Thomas (s.151 Officer and Head of Finance)
Mr C Hurst (Pension Fund Manager)
Mrs R Pinder / Mr S Mayne / Mr G Feane / Mr R Antrobus – Aon (Investment Consultants)
Mrs B Durran – Aon (Actuary)
Burgess Salmon (Legal Advisers)

Over the year the Committee met on 7 occasions. Information relating to the meetings, including Member attendance can be viewed on the Council web site:

<https://powys.moderngov.co.uk/mgCommitteeDetails.aspx?ID=163>

Appendix 2: Fund Employers

Powys County Council administers the scheme for employees and ex-employees of the following bodies:

Scheduled Bodies	Admitted Bodies
Brecon Beacons National Park Authority, Brecon Town Council, Knighton Town Council, Llandrindod Wells Town Council, Llanidloes Burial Joint Committee, Llanidloes Town Council, Machynlleth Town Council, Newtown and Llanllwchaiarn Town Council, Powys County Council, Powys Magistrates Courts' Committee, Welshpool Town Council, Ystradfellte Community Council, Ystradgynlais Town Council	Adapt Business Services, Agoriad, BUPA Care Homes, Camping & Caravanning Club, Careers Wales Powys, Development Board for Rural Wales, Elite Supported employment Agency, Freedom Leisure, Heart of Wales Property Services Ltd Just Perfect Catering Ltd. Kier Facilities Services Ltd. MENCAP, Menter Maldwyn, Mirus Wales, Powys Association of Voluntary Organisations, Powys Dance, Powys Valuation Panel, Presteigne Shire Hall Museum Trust, Shaw Healthcare Ltd. Solo Service Group, Theatr Brycheiniog, Wales European Centre, Ystradgynlais Miners Welfare & Community,

Community Councils and various other statutory bodies have the right to be included in the Fund. Other bodies can be admitted at the discretion of the County Council.

Contact List and Communications

A copy of this report is available to anyone on demand, subject to a small administration charge. A full copy of the report can be viewed at www.powyspensionfund.org. Should you have any comments on the financial statement or any other pension matter please contact the appropriate officer in the following list:

Pension Scheme, Fund Governance & Other Matters

Pension Fund Manager	Mr C Hurst	01597 827640
----------------------	------------	--------------

Accounts & Investment

Pension Fund Accounts	Mr D Paley	01597 826042
-----------------------	------------	--------------